UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-2592361** (I.R.S. Employer Identification No.)
70 Pine Street, New York, New York (Address of principal executive offices)	**10270** (Zip Code)

Registrant's telephone number, including area code: (212) 770-7000

Former name, former address and former fiscal year, if changed since last report: None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

As of October 31, 2008, there were 2,689,938,313 shares outstanding of the registrant's common stock.

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Part I – FINANCIAL INFORMATION
ITEM 1. Financial Statements (unaudited)

CONSOLIDATED BALANCE SHEET

(in millions) (unaudited)

	September 30, 2008	December 31, 2007
Assets:		
Investments and Financial Services assets:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2008 – $412,877; 2007 – $393,170)	**$ 394,494**	$ 397,372
Bonds held to maturity, at amortized cost (fair value: 2008 – $0; 2007 – $22,157)	**–**	21,581
Bond trading securities, at fair value	**7,552**	9,982
Equity securities:		
Common stocks available for sale, at fair value (cost: 2008 – $11,317; 2007 – $12,588)	**11,459**	17,900
Common and preferred stocks trading, at fair value	**20,674**	21,376
Preferred stocks available for sale, at fair value (cost: 2008 – $1,590; 2007 – $2,600)	**1,464**	2,370
Mortgage and other loans receivable, net of allowance (2008 – $90; 2007 – $77) (held for sale: 2008 – $26; 2007 – $377) (amount measured at fair value: 2008 – $328)	**33,724**	33,727
Financial Services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2008 – $11,812; 2007 – $10,499)	**43,561**	41,984
Securities available for sale, at fair value (cost: 2008 – $2,568; 2007 – $40,157)	**2,326**	40,305
Trading securities, at fair value	**36,136**	4,197
Spot commodities, at fair value	**34**	238
Unrealized gain on swaps, options and forward transactions, at fair value	**10,034**	12,318
Trade receivables	**4,617**	672
Securities purchased under agreements to resell, at fair value in 2008	**12,100**	20,950
Finance receivables, net of allowance (2008 – $1,290; 2007 – $878) (held for sale: 2008 – $26; 2007 – $233)	**32,590**	31,234
Securities lending invested collateral, at fair value (cost: 2008 – $41,336; 2007 – $80,641)	**41,511**	75,662
Other invested assets (amount measured at fair value: 2008 – $21,528; 2007 – $20,827)	**58,723**	58,823
Short-term investments (amount measured at fair value: 2008 – $22,590)	**52,484**	51,351
Total Investments and Financial Services assets	**763,483**	842,042
Cash	**18,570**	2,284
Investment income due and accrued	**7,008**	6,587
Premiums and insurance balances receivable, net of allowance (2008 – $582; 2007 – $662)	**19,106**	18,395
Reinsurance assets, net of allowance (2008 – $471; 2007 – $520)	**23,943**	23,103
Current and deferred income taxes	**14,833**	–
Deferred policy acquisition costs	**48,182**	43,914
Investments in partially owned companies	**591**	654
Real estate and other fixed assets, net of accumulated depreciation (2008 – $5,814; 2007 – $5,446)	**5,730**	5,518
Separate and variable accounts, at fair value	**65,472**	78,684
Goodwill	**10,334**	9,414
Other assets, including prepaid commitment asset of $24,204 in 2008 (amount measured at fair value: 2008 – $1,623; 2007 – $4,152)	**44,985**	17,766
Total assets	**$1,022,237**	$1,048,361

See Accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET *(continued)*

(in millions, except share data) (unaudited)

	September 30, 2008	December 31, 2007
Liabilities:		
Reserve for losses and loss expenses	**$ 90,877**	$ 85,500
Unearned premiums	**28,448**	27,703
Future policy benefits for life and accident and health insurance contracts	**146,802**	136,387
Policyholders' contract deposits (amount measured at fair value: 2008 – $4,282; 2007 – $295)	**259,792**	258,459
Other policyholders' funds	**13,940**	12,599
Commissions, expenses and taxes payable	**5,577**	6,310
Insurance balances payable	**5,428**	4,878
Funds held by companies under reinsurance treaties	**2,462**	2,501
Current and deferred income taxes	**–**	3,823
Financial Services liabilities:		
Securities sold under agreements to repurchase (amount measured at fair value: 2008 – $7,193)	**8,407**	8,331
Trade payables	**3,094**	6,445
Securities and spot commodities sold but not yet purchased, at fair value	**2,566**	4,709
Unrealized loss on swaps, options and forward transactions, at fair value	**6,325**	14,817
Trust deposits and deposits due to banks and other depositors (amount measured at fair value: 2008 – $215)	**5,946**	4,903
Commercial paper and extendible commercial notes	**5,600**	13,114
Federal Reserve Bank of New York credit facility	**62,960**	–
Other long-term borrowings (amount measured at fair value: 2008 – $39,149)	**155,990**	162,935
Separate and variable accounts	**65,472**	78,684
Securities lending payable	**42,800**	81,965
Minority interest	**11,713**	10,422
Other liabilities (amount measured at fair value: 2008 – $3,389; 2007 – $3,262)	**26,756**	27,975
Total liabilities	**950,955**	952,460
Preferred shareholders' equity in subsidiary companies	**100**	100
Commitments, contingencies and guarantees (See Note 7)		
Shareholders' equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2008 – 2,948,038,001; 2007 – 2,751,327,476	**7,370**	6,878
Additional paid-in capital	**32,501**	2,848
Payments advanced to purchase shares	**–**	(912)
Retained earnings	**49,291**	89,029
Accumulated other comprehensive income (loss)	**(9,480)**	4,643
Treasury stock, at cost; 2008 – 258,123,304; 2007 – 221,743,421 shares of common stock	**(8,500)**	(6,685)
Total shareholders' equity	**71,182**	95,801
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	**$1,022,237**	$1,048,361

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME (LOSS)

(in millions, except per share data) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Revenues:				
Premiums and other considerations	**$ 21,082**	$19,733	**$ 63,489**	$58,908
Net investment income	**2,946**	6,172	**14,628**	21,149
Net realized capital losses	**(18,312)**	(864)	**(30,482)**	(962)
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**(7,054)**	(352)	**(21,726)**	(352)
Other income	**2,236**	5,147	**8,953**	12,888
Total revenues	**898**	29,836	**34,862**	91,631
Benefits and expenses:				
Incurred policy losses and benefits	**17,189**	15,595	**51,521**	47,962
Policy acquisition and other insurance expenses	**6,919**	5,357	**18,560**	15,508
Interest expense	**2,297**	1,232	**4,902**	3,425
Other expenses	**2,678**	2,773	**8,084**	7,357
Total benefits and expenses	**29,083**	24,957	**83,067**	74,252
Income (loss) before income taxes (benefits) and minority interest	**(28,185)**	4,879	**(48,205)**	17,379
Income taxes (benefits)	**(3,480)**	1,463	**(10,374)**	4,868
Income (loss) before minority interest	**(24,705)**	3,416	**(37,831)**	12,511
Minority interest	**237**	(331)	**201**	(1,019)
Net income (loss)	**$(24,468)**	$ 3,085	**$(37,630)**	$11,492
Earnings (loss) per common share:				
Basic	**$ (9.05)**	$ 1.20	**$ (14.40)**	$ 4.43
Diluted	**$ (9.05)**	$ 1.19	**$ (14.40)**	$ 4.40
Dividends declared per common share	**$ --**	$ 0.200	**$ 0.420**	$ 0.565
Weighted average shares outstanding:				
Basic	**2,703**	2,576	**2,613**	2,596
Diluted	**2,703**	2,589	**2,613**	2,609

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in millions, except share and per share data) (unaudited)	Nine Months Ended September 30, 2008 Amounts	Shares
Common stock:		
Balance, beginning of period	$ 6,878	2,751,327,476
Issuances	492	196,710,525
Balance, end of period	7,370	2,948,038,001
Additional paid-in capital:		
Balance, beginning of period	2,848	
Excess of proceeds over par value of common stock issued	6,851	
Present value of future contract adjustment payments related to issuance of equity units	(431)	
Consideration received for preferred stock not yet issued	23,000	
Excess of cost over proceeds of common stock issued under stock plans	(80)	
Other	313	
Balance, end of period	32,501	
Payments advanced to purchase shares:		
Balance, beginning of period	(912)	
Payments advanced	(1,000)	
Shares purchased	1,912	
Balance, end of period	–	
Retained earnings:		
Balance, beginning of period	89,029	
Cumulative effect of accounting changes, net of tax	(1,003)	
Adjusted balance, beginning of period	88,026	
Net loss	(37,630)	
Dividends to common shareholders ($0.42 per share)	(1,105)	
Balance, end of period	49,291	
Accumulated other comprehensive income (loss):		
Unrealized appreciation (depreciation) of investments, net of tax:		
Balance, beginning of period	4,375	
Cumulative effect of accounting changes, net of tax	(105)	
Adjusted balance, beginning of period	4,270	
Unrealized appreciation (depreciation) on investments, net of reclassification adjustments	(20,874)	
Deferred income tax benefit	7,491	
Balance, end of period	(9,113)	
Foreign currency translation adjustments, net of tax:		
Balance, beginning of period	880	
Translation adjustment	(275)	
Deferred income tax expense	(304)	
Balance, end of period	301	
Net derivative gains (losses) arising from cash flow hedging activities, net of tax:		
Balance, beginning of period	(87)	
Net deferred gains on cash flow hedges, net of reclassification adjustments	2	
Deferred income tax expense	(1)	
Balance, end of period	(86)	
Retirement plan liabilities adjustment, net of tax:		
Balance, beginning of period	(525)	
Net actuarial loss	(47)	
Prior service credit	(9)	
Deferred income tax expense	(1)	
Balance, end of period	(582)	
Accumulated other comprehensive income (loss), end of period	(9,480)	
Treasury stock, at cost:		
Balance, beginning of period	(6,685)	(221,743,421)
Shares acquired	(1,912)	(37,927,125)
Issued under stock plans	24	1,545,316
Other	73	1,926
Balance, end of period	(8,500)	(258,123,304)
Total shareholders' equity, end of period	$ 71,182	

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions) (unaudited)

	Nine Months Ended September 30,	
	2008	2007
Summary:		
Net cash provided by (used in) operating activities	**$ 2,182**	$ 27,549
Net cash provided by (used in) investing activities	**(7,460)**	(65,862)
Net cash provided by (used in) financing activities	**21,559**	38,964
Effect of exchange rate changes on cash	**5**	8
Change in cash	**16,286**	659
Cash at beginning of period	**2,284**	1,590
Cash at end of period	**$ 18,570**	$ 2,249
Cash flows from operating activities:		
Net income (loss)	**$(37,630)**	$ 11,492
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**$ 21,726**	$ 352
Net (gains) losses on sales of securities available for sale and other assets	**2**	(1,110)
Foreign exchange transaction (gains) losses	**(1,409)**	1,214
Net unrealized (gains) losses on non-AIGFP derivatives and other assets and liabilities	**5,779**	(103)
Equity in (income) loss of partially owned companies and other invested assets	**2,000**	(3,336)
Amortization of deferred policy acquisition costs	**10,645**	9,115
Depreciation and other amortization	**2,727**	2,984
Provision for mortgage, other loans and finance receivables	**955**	391
Other-than-temporary impairments	**32,246**	1,413
Impairments of goodwill and other assets	**632**	–
Amortization of costs related to Federal Reserve Bank of New York credit facility	**802**	–
Changes in operating assets and liabilities:		
General and life insurance reserves	**14,834**	12,127
Premiums and insurance balances receivable and payable – net	**(396)**	515
Reinsurance assets	**(863)**	561
Capitalization of deferred policy acquisition costs	**(12,710)**	(11,684)
Investment income due and accrued	**(398)**	(538)
Funds held under reinsurance treaties	**(49)**	(166)
Other policyholders' funds	**1,206**	746
Income taxes receivable and payable – net	**(10,935)**	707
Commissions, expenses and taxes payable	**155**	1,110
Other assets and liabilities – net	**(1,084)**	1,674
Trade receivables and payables – net	**(7,297)**	(2,546)
Trading securities	**1,729**	2,002
Spot commodities	**204**	105
Net unrealized (gain) loss on swaps, options and forward transactions (net of collateral)	**(28,191)**	1,707
Securities purchased under agreements to resell	**8,831**	(6,898)
Securities sold under agreements to repurchase	**41**	3,686
Securities and spot commodities sold but not yet purchased	**(2,154)**	660
Finance receivables and other loans held for sale – originations and purchases	**(346)**	(4,735)
Sales of finance receivables and other loans – held for sale	**545**	5,119
Other, net	**585**	985
Total adjustments	**39,812**	16,057
Net cash provided by operating activities	**$ 2,182**	$ 27,549

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

(in millions) (unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales and maturities of fixed maturity securities available for sale and hybrid investments	**$ 65,584**	$ 96,737
Sales of equity securities available for sale	**8,117**	6,700
Proceeds from fixed maturity securities held to maturity	**126**	175
Sales of trading securities	**19,348**	–
Sales of flight equipment	**430**	95
Sales or distributions of other invested assets	**11,840**	9,298
Payments received on mortgage and other loans receivable	**4,809**	4,170
Principal payments received on finance receivables held for investment	**9,731**	9,554
Purchases of fixed maturity securities available for sale and hybrid investments	**(75,938)**	(108,879)
Purchases of equity securities available for sale	**(7,701)**	(8,438)
Purchases of fixed maturity securities held to maturity	**(88)**	(154)
Purchases of trading securities	**(20,488)**	–
Purchases of flight equipment (including progress payments)	**(3,200)**	(3,925)
Purchases of other invested assets	**(16,030)**	(20,677)
Mortgage and other loans receivable issued	**(4,939)**	(7,354)
Finance receivables held for investment – originations and purchases	**(11,697)**	(11,394)
Change in securities lending invested collateral	**20,245**	(18,723)
Net additions to real estate, fixed assets, and other assets	**(1,034)**	(1,004)
Net change in short-term investments	**(6,116)**	(11,764)
Net change in non-AIGFP derivative assets and liabilities	**(459)**	(279)
Net cash used in investing activities	**$ (7,460)**	$ (65,862)
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholders' contract deposits	**$ 46,446**	$ 45,766
Policyholders' contract withdrawals	**(42,381)**	(43,574)
Change in other deposits	**747**	(446)
Change in commercial paper and extendible commercial notes	**(7,540)**	2,526
Other long-term borrowings issued	**111,558**	72,039
Federal Reserve Bank of New York credit facility borrowings	**61,000**	–
Repayments on other long-term borrowings	**(114,051)**	(49,643)
Change in securities lending payable	**(39,127)**	18,156
Proceeds from common stock issued	**7,343**	–
Issuance of treasury stock	**9**	204
Payments advanced to purchase shares	**(1,000)**	(5,000)
Cash dividends paid to shareholders	**(1,629)**	(1,372)
Acquisition of treasury stock	**–**	(16)
Other, net	**184**	324
Net cash provided by financing activities	**$ 21,559**	$ 38,964
Supplementary disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	**$ 4,953**	$ 6,190
Taxes	**$ 562**	$ 4,044
Non-cash financing activities:		
Consideration received for preferred stock not yet issued	**$ 23,000**	–
Interest credited to policyholder accounts included in financing activities	**$ 5,737**	$ 7,553
Treasury stock acquired using payments advanced to purchase shares	**$ 1,912**	$ 3,725
Present value of future contract adjustment payments related to issuance of equity units	**$ 431**	$ –
Non-cash investing activities:		
Debt assumed on acquisitions and warehoused investments	**$ 153**	$ 358
Liability related to purchase of additional interest in 21st Century	**$ –**	$ 759

See Accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in millions) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Net income (loss)	**$(24,468)**	$ 3,085	**$(37,630)**	$11,492
Other comprehensive income (loss):				
Cumulative effect of accounting changes	**–**	–	**(162)**	–
Deferred income tax benefit on above changes	**–**	–	**57**	–
Unrealized (depreciation) appreciation of investments – net of reclassification adjustments	**(6,620)**	(3,394)	**(20,874)**	(4,246)
Deferred income tax benefit on above changes	**2,678**	941	**7,491**	1,081
Foreign currency translation adjustments	**(1,383)**	619	**(275)**	290
Deferred income tax benefit (expense) on above changes	**(180)**	(109)	**(304)**	(74)
Net derivative gains (losses) arising from cash flow hedging activities – net of reclassification adjustments	**(9)**	(93)	**2**	(31)
Deferred income tax benefit on above changes	**4**	34	**(1)**	39
Change in pension and postretirement unrecognized periodic benefit	**(69)**	17	**(56)**	35
Deferred income tax benefit (expense) on above changes	**2**	(8)	**(1)**	(10)
Other comprehensive income (loss)	**(5,577)**	(1,993)	**(14,123)**	(2,916)
Comprehensive income (loss)	**$(30,045)**	$ 1,092	**$(51,753)**	$ 8,576

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States (GAAP) for complete financial statements and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2007 (2007 Annual Report on Form 10-K).

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated.

Going Concern Considerations

During the third quarter of 2008, requirements to post collateral in connection with AIGFP's credit default swap (CDS) portfolio and other AIGFP transactions and to fund returns of securities lending collateral placed stress on AIG's liquidity. AIG's stock price declined from $22.76 on September 8, 2008 to $4.76 on September 15, 2008. On that date, AIG's long-term debt ratings were downgraded by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P), Moody's Investors Service (Moody's) and Fitch Ratings (Fitch), which triggered additional requirements for liquidity. These and other events severely limited AIG's access to debt and equity markets.

On September 22, 2008, AIG entered into an $85 billion revolving credit agreement (the Fed Credit Agreement) with the Federal Reserve Bank of New York (the NY Fed) and, pursuant to the Fed Credit Agreement, AIG agreed to issue 100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock (the Series C Preferred Stock) to a trust for the benefit of the United States Treasury (the Trust) (see Notes 4 and 5 to the Consolidated Financial Statements). At September 30, 2008, amounts owed under the facility created pursuant to the Fed Credit Agreement (the Fed Facility) totaled $63 billion, including accrued fees and interest.

Since September 30, 2008, AIG has borrowed additional amounts under the Fed Facility and has announced plans to sell assets and businesses to repay amounts owed in connection with the Fed Credit Agreement. In addition, subsequent to September 30, 2008, certain of AIG's domestic life insurance subsidiaries entered into an agreement with the NY Fed pursuant to which the NY Fed has borrowed, in return for cash collateral, investment grade fixed maturity securities from the insurance subsidiaries. As described in Note 11 to the Consolidated Financial Statements, AIG announced on November 10, 2008 that it had entered into an agreement in principle as part of the Troubled Asset Relief Program (TARP) pursuant to which the United States Treasury will purchase from AIG $40 billion liquidation preference of newly issued perpetual preferred stock and a 10-year warrant exercisable for shares of AIG common stock equal to 2% of the outstanding shares of common stock, and that the NY Fed and AIG had agreed to amend the Fed Credit Agreement to reduce the interest rate on outstanding borrowings and undrawn amounts, extend the term from two years to five years, reduce the number of shares of common stock of AIG to be issued upon conversion of the Series C Preferred Stock held by the Trust so that the government's overall interest will not exceed 79.9 percent and revise the total amount available under the Fed Facility. In addition, four AIG affiliates are participating in the NY Fed's Commercial Paper Funding Facility (CPFF). AIG also has announced its intention to enter into other agreements with the NY Fed to limit AIG's future liquidity exposures to the multi-sector credit default swap portfolio and securities lending programs.

In assessing AIG's current financial position and developing operating plans for the future, management has made significant judgments and estimates with respect to the potential financial and liquidity effects of AIG's risks and uncertainties, including but not limited to:

- the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies, including in particular, the uncertainty in estimating, for the super senior credit default swaps, both the number of counterparties who may elect to terminate under contractual termination provisions and the amount that would be required to be paid in the event of a downgrade;
- the potential for continued declines in bond and equity markets; and
- the potential effect on AIG if the capital levels of its regulated and unregulated subsidiaries prove inadequate to support current business plans; and
- the effect on AIG's businesses of continued compliance with the covenants of the Fed Credit Agreement.

Based on the agreement in principle, management's plans to stabilize AIG's businesses and dispose of its non-core assets, and after consideration of the risks and uncertainties to such plans, management believes that it will have adequate liquidity to finance and operate AIG's businesses, execute its disposition plan and repay its obligations for at least the next twelve months.

It is possible that the actual outcome of one or more of management's plans could be materially different, or that one

1. Summary of Significant Accounting Policies *(continued)*

or more of management's significant judgments or estimates about the potential effects of the risks and uncertainties could prove to be materially incorrect or that the agreements in principle disclosed in Note 11 to the Consolidated Financial Statements (and as discussed below) do not result in completed transactions. If one or more of these possible outcomes were realized, AIG may not have sufficient cash to meet its obligations. If AIG needs funds in excess of amounts available from the sources described below, AIG would need to find additional financing and, if such additional financing were to be unavailable, there could exist substantial doubt about AIG's ability to continue as a going concern.

AIG's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets nor relating to the amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

Investment Pricing

Certain of AIG's foreign subsidiaries included in the consolidated financial statements report on a fiscal period ended August 31. The effect on AIG's consolidated financial condition and results of operations of all material events occurring between August 31 and September 30 for all periods presented has been recorded. AIG determined the significant and rapid world-wide market decline in September 2008 to be an intervening event that had a material effect on its consolidated financial position and results of operations. AIG reflected this recent market decline throughout its investment portfolio. Accordingly, AIG recorded $1.3 billion ($845 million after tax) of hedge and mutual fund investment losses in net investment income, $1.1 billion ($910 million after tax) of other than temporary impairment charges, and $5.4 billion ($3.2 billion after tax) of unrealized depreciation on investments.

Revisions and Reclassifications

During the third quarter of 2008, AIG began reporting interest expense and other expenses separately on the consolidated statement of income (loss). Interest expense represents interest expense on short-term and long-term borrowings. Other expenses represent all other expenses not separately disclosed on the consolidated statement of income (loss). Prior period amounts were revised to conform to the current period presentation.

In the second quarter of 2008, AIG determined that certain accident and health contracts in its Foreign General Insurance reporting unit, which were previously accounted for as short duration contracts, should be treated as long duration insurance products. Accordingly, the December 31, 2007 consolidated balance sheet has been revised to reflect the reclassification of $763 million of deferred direct response advertising costs, previously reported in other assets, to deferred policy acquisition costs (DAC). Additionally, $320 million has been reclassified in the consolidated balance sheet as of December 31, 2007 from unearned premiums to future policy benefits for life and accident and health insurance contracts. These revisions did not have a material effect on AIG's consolidated income before income taxes, net income, or shareholders' equity for any period presented.

See Recent Accounting Standards — Accounting Changes below for a discussion of AIG's adoption of the Financial Accounting Standards Board (FASB) Staff Position (FSP) FASB Interpretation No. (FIN) 39-1, "Amendment of FASB Interpretation No. 39" (FSP FIN 39-1).

Certain other reclassifications and format changes have been made to prior period amounts to conform to the current period presentation.

Fixed Maturity Securities, Held to Maturity — Change in Intent

During the third quarter of 2008, AIG transferred all securities previously classified as held to maturity to available for sale. As a result of the continuing disruption in the credit markets during the third quarter of 2008, AIG changed its intent to hold to maturity certain tax-exempt municipal securities held by its insurance subsidiaries, which comprised substantially all of AIG's held to maturity securities. This change in intent resulted from a change in certain subsidiaries' investment strategies to increase their allocations to taxable securities, reflecting AIG's net operating loss position. As of September 30, 2008, the securities had a carrying value of $20.8 billion and a net unrealized loss of $752 million. No securities previously classified as held to maturity were sold during the third quarter.

Recent Accounting Standards

Accounting Changes

FAS 157

In September 2006, the FASB issued Statement of Financial Accounting Standards (FAS) No. 157, "Fair Value Measurements" (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements regarding fair value measurements but does not change existing guidance about whether an asset or liability is

1. Summary of Significant Accounting Policies *(continued)*

carried at fair value. FAS 157 nullifies the guidance in Emerging Issues Task Force (EITF) Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," (EITF 02-3) that precluded the recognition of a trading profit at the inception of a derivative contract unless the fair value of such contract was obtained from a quoted market price or other valuation technique incorporating observable market data. FAS 157 also clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value. The fair value measurement and related disclosure guidance in FAS 157 do not apply to fair value measurements associated with AIG's share-based employee compensation awards accounted for in accordance with FAS 123(R), "Share-Based Payment."

AIG adopted FAS 157 on January 1, 2008, its required effective date. FAS 157 must be applied prospectively, except for certain stand-alone derivatives and hybrid instruments initially measured using the guidance in EITF 02-3, which must be applied as a cumulative effect accounting change to retained earnings at January 1, 2008. The cumulative effect, net of taxes, of adopting FAS 157 on AIG's consolidated balance sheet was an increase in retained earnings of $4 million.

The most significant effect of adopting FAS 157 on AIG's consolidated results of operations for the three- and nine-month periods ended September 30, 2008 related to changes in fair value methodologies with respect to both liabilities already carried at fair value, primarily hybrid notes and derivatives, and newly elected liabilities measured at fair value (see FAS 159 discussion below). Specifically, the incorporation of AIG's own credit spreads and the incorporation of explicit risk margins (embedded policy derivatives at transition only) resulted in a increase in pre-tax income of $2.4 billion ($1.5 billion after tax) and an increase in pre-tax income of $5.0 billion ($3.2 billion after tax) for the three- and nine-month periods ended September 30, 2008, respectively. The effects of the changes in AIG's own credit spreads on pre-tax income for AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (AIGFP) were increases of $1.3 billion and $3.8 billion for the three- and nine-month periods ended September 30, 2008, respectively. The effect of the changes in counterparty credit spreads for assets measured at fair value at AIGFP were decreases in pre-tax income of $2.3 billion and $5.3 billion for the three- and nine-month periods ended September 30, 2008, respectively.

See Note 3 to the Consolidated Financial Statements for additional FAS 157 disclosures.

FAS 159

In February 2007, the FASB issued FAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (FAS 159). FAS 159 permits entities to choose to measure at fair value many financial instruments and certain other items that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in income. FAS 159 also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. FAS 159 permits the fair value option election on an instrument-by-instrument basis for eligible items existing at the adoption date and at initial recognition of an asset or liability, or upon most events that give rise to a new basis of accounting for that instrument.

AIG adopted FAS 159 on January 1, 2008, its required effective date. The adoption of FAS 159 with respect to elections made in the Life Insurance & Retirement Services segment resulted in an after-tax decrease to 2008 opening retained earnings of $559 million. The adoption of FAS 159 with respect to elections made by AIGFP resulted in an after-tax decrease to 2008 opening retained earnings of $448 million. Included in this amount are net unrealized gains of $105 million that were reclassified to retained earnings from accumulated other comprehensive income (loss) related to available for sale securities recorded in the consolidated balance sheet at January 1, 2008 for which the fair value option was elected.

See Note 3 to the Consolidated Financial Statements for additional FAS 159 disclosures.

FAS 157 and FAS 159

The following table summarizes the after-tax increase (decrease) from adopting FAS 157 and FAS 159 on the opening shareholders' equity accounts at January 1, 2008:

	At January 1, 2008		
(in millions)	Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Cumulative Effect of Accounting Changes
FAS 157	$ –	$ 4	$ 4
FAS 159	(105)	(1,007)	(1,112)
Cumulative effect of accounting changes	$(105)	$(1,003)	$(1,108)

FSP FIN 39-1

In April 2007, the FASB issued FSP FIN 39-1, which modifies FASB Interpretation (FIN) No. 39, "Offsetting of Amounts Related to Certain Contracts," and permits companies to offset cash collateral receivables or payables against derivative instruments under certain circumstances. AIG adopted the provisions of FSP FIN 39-1 effective January 1, 2008, which

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

1. Summary of Significant Accounting Policies *(continued)*

requires retrospective application to all prior periods presented. At September 30, 2008, the amounts of cash collateral received and posted that were offset against net derivative positions totaled $6.5 billion and $33.1 billion, respectively. The cash collateral received and paid related to AIGFP derivative instruments was previously recorded in both trade payables and trade receivables. Cash collateral received related to non-AIGFP derivative instruments was previously recorded in other liabilities. Accordingly, the derivative assets and liabilities at December 31, 2007 have been reduced by $6.3 billion and $5.8 billion, respectively, related to the netting of cash collateral.

FSP FAS 157-3

In October 2008, the FASB issued FSP FAS 157-3, “Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active” (FSP FAS 157-3). FSP FAS 157-3 provides guidance clarifying certain aspects of FAS 157 with respect to the fair value measurements of a security when the market for that security is inactive. AIG adopted this guidance in the third quarter of 2008. The effects of adopting FSP FAS 157-3 on AIG’s consolidated financial condition and results of operations were not material.

Future Application of Accounting Standards

FAS 141(R)

In December 2007, the FASB issued FAS 141 (revised 2007), “Business Combinations” (FAS 141(R)). FAS 141(R) changes the accounting for business combinations in a number of ways, including broadening the transactions or events that are considered business combinations; requiring an acquirer to recognize 100 percent of the fair value of assets acquired, liabilities assumed, and noncontrolling (i.e., minority) interests; recognizing contingent consideration arrangements at their acquisition-date fair values with subsequent changes in fair value generally reflected in income; and recognizing preacquisition loss and gain contingencies at their acquisition-date fair values, among other changes.

AIG is required to adopt FAS 141(R) for business combinations for which the acquisition date is on or after January 1, 2009. Early adoption is prohibited.

FAS 160

In December 2007, the FASB issued FAS 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51” (FAS 160). FAS 160 requires noncontrolling (i.e., minority) interests in partially owned consolidated subsidiaries to be classified in the consolidated balance sheet as a separate component of consolidated shareholders’ equity. FAS 160 also establishes accounting rules for subsequent acquisitions and sales of noncontrolling interests and provides for how noncontrolling interests should be presented in the consolidated statement of income. The noncontrolling interests’ share of subsidiary income should be reported as a part of consolidated net income with disclosure of the attribution of consolidated net income to the controlling and noncontrolling interests on the face of the consolidated statement of income.

AIG is required to adopt FAS 160 on January 1, 2009 and early application is prohibited. FAS 160 must be adopted prospectively, except that noncontrolling interests should be reclassified from liabilities to a separate component of shareholders’ equity and consolidated net income should be recast to include net income attributable to both the controlling and noncontrolling interests retrospectively. AIG is currently assessing the effect that adopting FAS 160 will have on its consolidated financial statements.

FAS 161

In March 2008, the FASB issued FAS 161, “Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133” (FAS 161). FAS 161 requires enhanced disclosures about (a) how and why AIG uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS No. 133, “Accounting for Derivative Instruments and Hedging Activities” (FAS 133), and its related interpretations, and (c) how derivative instruments and related hedged items affect AIG’s consolidated financial condition, results of operations, and cash flows. FAS 161 is effective for AIG beginning with financial statements issued in the first quarter of 2009. Because FAS 161 only requires additional disclosures about derivatives, it will have no effect on AIG’s consolidated financial condition, results of operations or cash flows.

FAS 162

In May 2008, the FASB issued FAS 162, “The Hierarchy of Generally Accepted Accounting Principles” (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with GAAP but does not change current practices. FAS 162 will become effective on the 60th day following Securities and Exchange Commission (SEC) approval of the Public Company Accounting Oversight Board amendments to remove GAAP hierarchy from the auditing standards. FAS 162 will have no effect on AIG’s consolidated financial condition, results of operations or cash flows.

FSP FAS 140-3

In February 2008, the FASB issued FSP No. FAS 140-3, “Accounting for Transfers of Financial Assets and Repurchase

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

1. Summary of Significant Accounting Policies *(continued)*

Financing Transactions” (FSP FAS 140-3). FSP FAS 140-3 requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with or in contemplation of the initial transfer to be evaluated as a linked transaction unless certain criteria are met. FSP FAS 140-3 is effective for AIG beginning January 1, 2009 and will be applied to new transactions entered into from that date forward. Early adoption is prohibited. AIG is currently assessing the effect that adopting FSP FAS 140-3 will have on its consolidated financial statements but does not believe the effect will be material.

FSP FAS 133-1 and FIN 45-4

In September 2008, the FASB issued FASB Staff Position No. FAS 133-1 and FIN 45-4, “Disclosures about Credit Derivatives and Certain Guarantees: An amendment of FASB Statement No. 133 and FASB Interpretation No. 45” (FSP). The FSP amends FAS 133 to require additional disclosures by sellers of credit derivatives, including derivatives embedded in a hybrid instrument. The FSP also amends FIN No. 45, “Guarantor’s Accounting and Disclosure Requirement for Guarantees, Including Indirect Guarantees of Indebtedness of Others”, to require an additional disclosure about the current status of the payment/performance risk of a guarantee. The FSP is effective for AIG beginning with the year-end 2008 financial statements. Because the FSP only requires additional disclosures about credit derivatives and guarantees, it will have no effect on AIG’s consolidated financial condition, results of operations or cash flows.

2. Segment Information

AIG identifies its operating segments by product line consistent with its management structure. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management.

AIG’s operations by operating segment were as follows:

Operating Segments	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2008**	2007	**2008**	2007
Total revenues*(a)*:				
General Insurance	**$ 10,808**	$ 12,758	**$ 35,854**	$ 38,589
Life Insurance & Retirement Services	**(4,642)**	12,632	**14,271**	40,337
Financial Services	**(5,851)**	2,785	**(16,016)**	7,109
Asset Management	**10**	1,519	**658**	4,969
Other	**451**	13	**531**	407
Consolidation and eliminations	**122**	129	**(436)**	220
Total	**$ 898**	$ 29,836	**$ 34,862**	$ 91,631
Operating income (loss)*(a)*:				
General Insurance	**$ (2,557)**	$ 2,439	**$ (393)**	$ 8,511
Life Insurance & Retirement Services	**(15,329)**	1,999	**(19,561)**	6,900
Financial Services	**(8,203)**	669	**(22,880)**	1,008
Asset Management	**(1,144)**	121	**(2,709)**	1,806
Other*(b)*	**(1,416)**	(627)	**(2,899)**	(1,557)
Consolidation and eliminations	**464**	278	**237**	711
Total	**$ (28,185)**	$ 4,879	**$ (48,205)**	$ 17,379

(a) To better align financial reporting with the manner in which AIG’s chief operating decision maker manages the business, beginning in the third quarter of 2008, AIG’s own credit risk valuation adjustments on intercompany transactions are excluded from segment revenues and operating income.

(b) Includes AIG parent and other operations that are not required to be reported separately. The following table presents the operating loss for AIG’s Other category:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

2. Segment Information *(continued)*

Other (in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating income (loss):				
Equity earnings in partially owned companies	**$ (13)**	$ 37	**$ 3**	$ 128
Interest expense on Fed Facility	**(802)**	–	**(802)**	–
Other interest expense	**(571)**	(315)	**(1,391)**	(869)
Unallocated corporate expenses	**(154)**	(166)	**(529)**	(548)
Net realized capital gains (losses)	**139**	(199)	**(96)**	(226)
Other miscellaneous, net	**(15)**	16	**(84)**	(42)
Total Other	**$ (1,416)**	$ (627)	**$ (2,899)**	$ (1,557)

AIG's General Insurance operations by major internal reporting unit were as follows:

General Insurance (in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Total revenues:				
Commercial Insurance	**$ 5,105**	$ 6,736	**$ 17,029**	$ 20,731
Transatlantic	**961**	1,088	**3,183**	3,253
Personal Lines	**1,207**	1,252	**3,718**	3,688
Mortgage Guaranty	**300**	267	**911**	772
Foreign General Insurance	**3,224**	3,413	**10,991**	10,150
Reclassifications and eliminations	**11**	2	**22**	(5)
Total	**$ 10,808**	$ 12,758	**$ 35,854**	$ 38,589
Operating income (loss):				
Commercial Insurance	**$ (1,109)**	$ 1,829	**$ 57**	$ 5,662
Transatlantic	**(155)**	189	**148**	508
Personal Lines	**23**	28	**47**	252
Mortgage Guaranty	**(1,118)**	(216)	**(1,990)**	(289)
Foreign General Insurance	**(209)**	607	**1,323**	2,383
Reclassifications and eliminations	**11**	2	**22**	(5)
Total	**$ (2,557)**	$ 2,439	**$ (393)**	$ 8,511

AIG's Life Insurance & Retirement Services operations by major internal reporting unit were as follows:

Life Insurance & Retirement Services (in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Total revenues:				
Foreign:				
Japan and Other	**$ 2,566**	$ 4,315	**$ 11,831**	$ 13,948
Asia	**1,812**	4,695	**10,664**	14,205
Domestic:				
Domestic Life Insurance	**(1,704)**	2,185	**813**	7,065
Domestic Retirement Services	**(7,316)**	1,437	**(9,037)**	5,119
Total	**$ (4,642)**	$ 12,632	**$ 14,271**	$ 40,337
Operating income (loss):				
Foreign:				
Japan and Other	**$ (1,074)**	$ 1,030	**$ (14)**	$ 2,753
Asia	**(1,419)**	706	**(971)**	1,921
Domestic:				
Domestic Life Insurance	**(3,911)**	61	**(5,786)**	774
Domestic Retirement Services	**(8,925)**	202	**(12,790)**	1,452
Total	**$ (15,329)**	$ 1,999	**$ (19,561)**	$ 6,900

2. Segment Information *(continued)*

AIG's Financial Services operations by major internal reporting unit were as follows:

Financial Services *(in millions)*	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Total revenues:				
Aircraft Leasing	**$ 1,367**	$ 1,237	**$ 3,830**	$ 3,468
Capital Markets	**(8,337)**	540	**(23,168)**	701
Consumer Finance	**1,029**	940	**2,988**	2,696
Other, including intercompany adjustments	**90**	68	**334**	244
Total	**$ (5,851)**	$ 2,785	**$ (16,016)**	$ 7,109
Operating income (loss):				
Aircraft Leasing	**$ 366**	$ 254	**$ 921**	$ 625
Capital Markets	**(8,073)**	370	**(23,284)**	183
Consumer Finance	**(474)**	69	**(559)**	180
Other, including intercompany adjustments	**(22)**	(24)	**42**	20
Total	**$ (8,203)**	$ 669	**$ (22,880)**	$ 1,008

AIG's Asset Management operations consist of a single internal reporting unit.

3. Fair Value Measurements

Effective January 1, 2008 AIG adopted FAS 157 and FAS 159, which specify measurement and disclosure standards related to assets and liabilities measured at fair value. See Note 1 to the Consolidated Financial Statements for additional information.

The most significant effect of adopting FAS 157 on AIG's results of operations for the three- and nine-month periods ended September 30, 2008 related to changes in fair value methodologies with respect to both liabilities already carried at fair value, primarily hybrid notes and derivatives, and newly elected liabilities measured at fair value (see FAS 159 discussion below). Specifically, the incorporation of AIG's own credit spreads and the incorporation of explicit risk margins (embedded policy derivatives at transition only) resulted in a increase of $2.4 billion to pre-tax income ($1.5 billion after tax) and an increase of $5.0 billion to pre-tax income ($3.2 billion after tax) for the three- and nine-month periods ended September 30, 2008, respectively, as follows:

(in millions)	Net Pre-Tax Increase (Decrease) Three Months Ended September 30, 2008	Net Pre-Tax Increase (Decrease) Nine Months Ended September 30, 2008	Liabilities Carried at Fair Value	Business Segment Affected
Income statement caption:				
Net realized capital losses	**$1,074**	**$1,325**	Freestanding derivatives	All segments - excluding AIGFP
	–	**(155)**	Embedded policy derivatives	Life Insurance & Retirement Services
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**98**	**207**	Super senior credit default swap portfolio	AIGFP
Other income	**$1,194***	**$3,621***	Notes, GIAs, derivatives, other liabilities	AIGFP
Net pre-tax increase	**$2,366**	**$4,998**		
Liabilities already carried at fair value	**$2,550**	**$3,904**		
Newly elected liabilities measured at fair value (FAS 159 elected)	**(184)**	**1,094**		
Net pre-tax increase	**$2,366**	**$4,998**		

* *The effect of changes in AIG's own credit spreads on pre-tax income for AIGFP was an increase of $1.3 billion and $3.8 billion for the three- and nine-month periods ended September 30, 2008, respectively. The effect of the changes in counterparty credit spreads for assets measured at fair value at AIGFP was a decrease in pre-tax income of $2.3 billion and $5.3 billion for the three- and nine-month periods ended September 30, 2008, respectively.*

Fair Value Measurements on a Recurring Basis

AIG measures at fair value on a recurring basis financial instruments in its trading and available for sale securities portfolios, certain mortgage and other loans receivable, certain spot commodities, derivative assets and liabilities, securities purchased (sold) under agreements to resell (repurchase), securities lending invested collateral, non-traded equity investments and certain private limited partnerships and certain hedge funds included in other invested assets, certain short-term investments, separate and variable account assets, certain policyholders' contract deposits, securities and spot commodities sold but not yet purchased, certain trust deposits and deposits due to banks and other depositors, certain long-term borrowings, and certain hybrid financial instruments included in other liabilities. The fair value of a financial instrument is the amount that would be received on sale of an asset or paid to transfer a liability in an orderly

3. Fair Value Measurements *(continued)*

transaction between market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

Incorporation of Credit Risk in Fair Value Measurements

- *AIG's Own Credit Risk.* Fair value measurements for AIGFP's debt, guaranteed investment agreements (GIAs), and structured note liabilities incorporate AIG's own credit risk by discounting cash flows at rates that incorporate AIG's currently observable credit default swap spreads and take into consideration collateral posted by AIG with counterparties at the balance sheet date.

  Fair value measurements for freestanding derivatives incorporate AIG's own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to AIG at the balance sheet date by reference to observable AIG credit default swap spreads. A counterparty's net credit exposure to AIG is determined based on master netting agreements, which take into consideration all derivative positions with AIG, as well as collateral posted by AIG with the counterparty at the balance sheet date.

  Fair value measurements for embedded policy derivatives and policyholders' contract deposits take into consideration that policyholder liabilities are senior in priority to general creditors of AIG and therefore are much less sensitive to changes in AIG credit default swap or cash issuance spreads.

- *Counterparty Credit Risk.* Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for AIG to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty credit default swap spreads. AIG's net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly include the incorporation of counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

Fixed Maturity Securities — Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value fixed maturity securities in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

AIG estimates the fair value of fixed maturity securities not traded in active markets, including securities purchased (sold) under agreements to resell (repurchase), and mortgage and other loans receivable for which AIG elected the fair value option, by referring to traded securities with similar attributes, using dealer quotations, a matrix pricing methodology, discounted cash flow analyses or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For fixed maturity instruments that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Equity Securities Traded in Active Markets — Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

3. Fair Value Measurements *(continued)*

Non-Traded Equity Investments — Other Invested Assets

AIG initially estimates the fair value of equity instruments not traded in active markets by reference to the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets, and changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Private Limited Partnership and Hedge Fund Investments — Other Invested Assets

AIG initially estimates the fair value of investments in certain private limited partnerships and certain hedge funds by reference to the transaction price. Subsequently, AIG obtains the fair value of these investments generally from net asset value information provided by the general partner or manager of the investments, the financial statements of which generally are audited annually.

Separate and Variable Account Assets

Separate and variable account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over the counter (OTC). AIG generally values exchange-traded derivatives using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

With the adoption of FAS 157 on January 1, 2008, AIG's own credit risk has been considered and is incorporated into the fair value measurement of its freestanding derivative liabilities.

Embedded Policy Derivatives

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG's historical experience. With respect to embedded policy derivatives in AIG's variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG's equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future

3. Fair Value Measurements *(continued)*

equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. With the adoption of FAS 157, these methodologies were not changed, with the exception of incorporating an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

AIGFP's Super Senior Credit Default Swap Portfolio

AIGFP values its credit default swaps written on the most senior (super senior) risk layers of designated pools of debt securities or loans using internal valuation models, third-party prices and market indices. The principal market was determined to be the market in which super senior credit default swaps of this type and size would be transacted, or have been transacted, with the greatest volume or level of activity. AIG has determined that the principal market participants, therefore, would consist of other large financial institutions who participate in sophisticated over-the-counter derivatives markets. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices.

The valuation of the super senior credit derivatives continues to be challenging given the limitation on the availability of market observable information due to the limited trading and lack of price transparency in the structured finance market, particularly during and since the fourth quarter of 2007. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants when assessing illiquid markets have increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

AIGFP's valuation methodologies for the super senior credit default swap portfolio have evolved in response to the deteriorating market conditions and the lack of sufficient market observable information. AIG has sought to calibrate the model to available market information and to review the assumptions of the model on a regular basis.

In the case of credit default swaps written to facilitate regulatory capital relief, AIGFP estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG expects that the majority of these transactions will be terminated within the next 6 to 18 months by AIGFP's counterparties. AIGFP also considers other market data, to the extent available.

AIGFP uses a modified version of the Binomial Expansion Technique (BET) model to value its credit default swap portfolio written on super senior tranches of multi-sector collateralized debt obligations (CDOs) of asset-backed securities (ABS), including maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term eligible 2a-7 investments under the Investment Company Act of 1940 (2a-7 Puts).

The BET model uses the prices for the securities comprising the portfolio of a CDO as an input and converts those prices to credit spreads over current LIBOR-based interest rates. These credit spreads are used to determine implied probabilities of default and expected losses on the underlying securities. This data is then aggregated and used to estimate the expected cash flows of the super senior tranche of the CDO. The most significant assumption used in the BET model is the pricing of the individual securities within the CDO collateral pools. The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates.

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. For the quarter ended September 30, 2008, CDO collateral managers provided market prices for approximately 70 percent of the underlying securities. When a price for an individual security is not provided by a CDO collateral manager, AIGFP derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third party pricing services.

AIGFP also employs a Monte Carlo simulation to assist in quantifying the effect on the valuation of the CDOs of the unique aspects of the CDOs' structure such as triggers that divert cash flows to the most senior part of the capital structure. The Monte Carlo simulation is used to determine whether an underlying security defaults in a given simulation scenario and, if it does, the security's implied random default time and expected loss. This information is used to project cash flow streams and to determine the expected losses of the portfolio.

In addition to calculating an estimate of the fair value of the super senior CDO security referenced in the credit default swaps using its internal model, AIGFP also considers the price estimates for the super senior CDO securities provided by

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

3. Fair Value Measurements *(continued)*

third parties, including counterparties to these transactions, to validate the results of the model and to determine the best available estimate of fair value. In determining the fair value of the super senior CDO security referenced in the credit default swaps, AIGFP uses a consistent process which considers all available pricing data points and eliminates the use of outlying data points. When pricing data points are within a reasonable range an averaging technique is applied.

In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIGFP estimates the fair value of its obligations by comparing the contractual premium of each contract to the current market levels of the senior tranches of comparable credit indices, the iTraxx index for European corporate issuances and the CDX index for U.S. corporate issuances. These indices are considered to be reasonable proxies for the referenced portfolios. In addition, AIGFP compares these valuations to third party prices and makes adjustments as necessary to arrive at the best available estimate of fair value.

AIGFP estimates the fair value of its obligations resulting from credit default swaps written on collateralized loan obligations to be equivalent to the par value less the current market value of the referenced obligation. Accordingly, the value is determined by obtaining third-party quotes on the underlying super senior tranches referenced under the credit default swap contract.

Policyholders' Contract Deposits

Policyholders' contract deposits accounted for at fair value beginning January 1, 2008 are measured using an income approach by taking into consideration the following factors:

- Current policyholder account values and related surrender charges;
- The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors; and
- A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholders' contract deposits is recorded as incurred policy losses and benefits in the consolidated statement of income (loss).

Fair Value Measurements on a Non-Recurring Basis

AIG also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include held to maturity securities (in periods prior to the third quarter of 2008), cost and equity-method investments, life settlement contracts, flight equipment, collateral securing foreclosed loans and real estate and other fixed assets, goodwill, and other intangible assets. AIG uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

- *Held to Maturity Securities, Cost and Equity-Method Investments:* When AIG determines that the carrying value of these assets may not be recoverable, AIG records the assets at fair value with the loss recognized in income. In such cases, AIG measures the fair value of these assets using the techniques discussed above for fixed maturities and equity securities. During the third quarter of 2008, AIG transferred all securities previously classified as held to maturity to the available for sale category (see Note 1 for further discussion).
- *Life Settlement Contracts:* AIG measures the fair value of individual life settlement contracts (which are included in other invested assets) whenever the carrying value plus the undiscounted future costs that are expected to be incurred to keep the life settlement contract in force exceed the expected proceeds from the contract. In those situations, the fair value is determined on a discounted cash flow basis, incorporating current life expectancy assumptions. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life settlement contract and AIG's estimate of the risk margin an investor in the contracts would require.
- *Flight Equipment Primarily Under Operating Leases:* When AIG determines the carrying value of its commercial aircraft may not be recoverable, AIG records the aircraft at fair value with the loss recognized in income. AIG measures the fair value of its commercial aircraft using an income approach based on the present value of all cash flows from existing and projected lease payments (based on historical experience and current expectations regarding market participants) including net contingent rentals for the period extending to the end of the aircraft's economic life in its highest and best use configuration, plus its disposition value.
- *Collateral Securing Foreclosed Loans and Real Estate and Other Fixed Assets:* When AIG takes collateral in connection with foreclosed loans, AIG generally bases its estimate

3. Fair Value Measurements *(continued)*

of fair value on the price that would be received in a current transaction to sell the asset by itself.

- *Goodwill:* AIG tests goodwill for impairment whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable, but at least annually. When AIG determines goodwill may be impaired, AIG uses techniques that consider market-based earnings multiples of the unit's peer companies or discounted cash flow techniques based on the price that could be received in a current transaction to sell the asset assuming the asset would be used with other assets as a group (in-use premise). See Fair Value Measured on a Non-Recurring Basis below for additional information.
- *Intangible Assets:* AIG tests its intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of an intangible asset may not be recoverable. AIG measures the fair value of intangible assets based on an in-use premise that considers the same factors used to estimate the fair value of its real estate and other fixed assets under an in-use premise discussed above.

See Notes 1(c), (d), (e), (t), and (v) to Consolidated Financial Statements included in the 2007 Annual Report on Form 10-K for additional information about how AIG tests various asset classes for impairment.

Fair Value Hierarchy

Beginning January 1, 2008, assets and liabilities recorded at fair value in the consolidated balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

- *Level 1:* Fair value measurements that are quoted prices (unadjusted) in active markets that AIG has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. AIG does not adjust the quoted price for such instruments. Assets and liabilities measured at fair value on a recurring basis and classified as Level 1 include certain government and agency securities, actively traded listed common stocks and derivative contracts, most separate account assets and most mutual funds.
- *Level 2:* Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government securities, most investment-grade and high-yield corporate bonds, certain ABS, certain listed equities, state, municipal and provincial obligations, hybrid securities, mutual fund and hedge fund investments, derivative contracts, GIAs at AIGFP and physical commodities.
- *Level 3:* Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain distressed ABS, structured credit products, certain derivative contracts (including AIGFP's super senior credit default swap portfolio), policyholders' contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG's non-financial-instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

3. Fair Value Measurements *(continued)*

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about assets and liabilities measured at fair value on a recurring basis at September 30, 2008, and indicates the level of the fair value measurement based on the levels of the inputs used:

(in millions)	Level 1	Level 2	Level 3	Counterparty Netting[(a)]	Total September 30, 2008
Assets:					
Bonds available for sale	$ 891	$ 375,021	$ 18,582	$ –	$ 394,494
Bond trading securities	–	7,355	197	–	7,552
Common stocks available for sale	11,113	271	75	–	11,459
Common and preferred stocks trading	19,751	922	1	–	20,674
Preferred stocks available for sale	1	1,393	70	–	1,464
Mortgage and other loans receivable	–	324	4	–	328
Financial Services assets:					
Securities available for sale	1	762	1,563	–	2,326
Trading securities	1,388	28,710	6,038	–	36,136
Spot commodities	–	34	–	–	34
Unrealized gain on swaps, options and forward transactions	–	54,108	3,307	(47,381)	10,034
Securities purchased under agreements to resell	–	12,100	–	–	12,100
Securities lending invested collateral[(b)]	–	23,648	12,173	–	35,821
Other invested assets[(c)]	2,334	7,406	11,788	–	21,528
Short-term investments	4,320	18,201	69	–	22,590
Separate and variable accounts	61,405	2,953	1,114	–	65,472
Other assets	110	3,057	354	(1,898)	1,623
Total	$ 101,314	$ 536,265	$ 55,335	$ (49,279)	$ 643,635
Liabilities:					
Policyholders' contract deposits	$ –	$ –	$ 4,282	$ –	$ 4,282
Other policyholders' funds					
Financial Services liabilities:					
Securities sold under agreements to repurchase	–	7,143	50	–	7,193
Securities and spot commodities sold but not yet purchased	715	1,851	–	–	2,566
Unrealized loss on swaps, options and forward transactions[(d)]	–	47,066	34,949	(75,690)	6,325
Trust deposits and deposits due to banks and other depositors	–	215	–	–	215
Other long-term borrowings	–	38,347	802	–	39,149
Other liabilities	7	3,501	60	(179)	3,389
Total	$ 722	$ 98,123	$ 40,143	$ (75,869)	$ 63,119

(a) Represents netting of derivative exposures covered by a qualifying master netting agreement in accordance with FIN 39 of $42.8 billion, offset by cash collateral posted and received by AIG of $33.1 billion and $6.5 billion, respectively.
(b) Amounts exclude short-term investments that are carried at cost, which approximates fair value of $5.7 billion.
(c) Approximately 11 percent of the fair value of the assets recorded as Level 3 relates to various private equity, real estate, hedge fund and fund-of-funds investments. AIG's ownership in these funds represented 27 percent, or $1.7 billion of the Level 3 amount.
(d) Included in Level 3 is the fair value derivative liability of $32.3 billion on AIGFP super senior credit default swap portfolio.

At September 30, 2008, Level 3 assets were 5.4 percent of total assets, and Level 3 liabilities were 4.2 percent of total liabilities.

3. Fair Value Measurements *(continued)*

The following tables present changes during the three- and nine-month periods ended September 30, 2008 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in income during the three- and nine-month periods ended September 30, 2008 related to the Level 3 assets and liabilities that remained in the consolidated balance sheet at September 30, 2008:

(in millions)	Balance Beginning of Period*(a)*	Net Realized and Unrealized Gains (Losses) Included in Income*(b)*	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements-net	Transfers In (Out)	Balance at September 30, 2008	Changes in Unrealized Gains (Losses) on Instruments Held at September 30, 2008
Three Months Ended September 30, 2008:							
Assets:							
Bonds available for sale	$ 18,480	$ (696)	$ (255)	$ (646)	$ 1,699	$ 18,582	$ –
Bond trading securities	195	(11)	(2)	20	(5)	197	(6)
Common stocks available for sale	227	1	1	(196)	42	75	–
Common and preferred stocks trading	5	–	(3)	5	(6)	1	–
Preferred stocks available for sale	258	(7)	(50)	(9)	(122)	70	–
Mortgage and other loans receivable	4	–	–	–	–	4	–
Financial Services assets:							
Securities available for sale	372	(3)	(180)	1,341	33	1,563	–
Trading securities	3,680	(1,510)	–	3,865	3	6,038	(919)
Securities lending invested collateral	8,489	(2,091)	829	(706)	5,652	12,173	–
Other invested assets	11,868	77	(126)	131	(162)	11,788	293
Short-term investments	–	–	–	69	–	69	–
Separate and variable accounts	1,178	(75)	–	11	–	1,114	(75)
Other assets	334	(4)	–	13	–	343	(4)
Total	$ 45,090	$ (4,319)	$ 214	$ 3,898	$ 7,134	$ 52,017	$ (711)
Liabilities:							
Policyholders' contract deposits	$ (4,179)	$ 113	$ 43	$ (259)	$ –	$ (4,282)	$ 235
Financial Services liabilities:							
Securities sold under agreements to repurchase	(40)	5	–	(15)	–	(50)	(5)
Unrealized loss on swaps, options and forward transactions, net	(26,674)	(5,223)	–	207	48	(31,642)	(6,032)
Other long-term borrowings	(2,689)	1,030	–	630	227	(802)	(500)
Other liabilities	(25)	(15)	(2)	2	(9)	(49)	4
Total	$ (33,607)	$ (4,090)	$ 41	$ 565	$ 266	$ (36,825)	$ (6,298)
Nine Months Ended September 30, 2008:							
Assets:							
Bonds available for sale	$ 18,786	$ (2,140)	$ (805)	$ (870)	$ 3,611	$ 18,582	$ –
Bond trading securities	141	(31)	–	35	52	197	(16)
Common stocks available for sale	224	(4)	1	(185)	39	75	–
Common and preferred stocks trading	30	(1)	(1)	(14)	(13)	1	–
Preferred stocks available for sale	135	(9)	(44)	(76)	64	70	–
Mortgage and other loans receivable	–	–	–	–	4	4	–
Financial Services assets:							
Securities available for sale	285	(6)	(172)	1,423	33	1,563	–
Trading securities	4,422	(2,943)	–	4,567	(8)	6,038	(2,408)
Securities lending invested collateral	11,353	(5,229)	1,916	(1,524)	5,657	12,173	–
Other invested assets	10,373	269	11	1,279	(144)	11,788	862
Short-term investments	–	–	–	69	–	69	–
Separate and variable accounts	1,003	(48)	–	159	–	1,114	(48)
Other assets	141	(4)	–	206	–	343	(4)
Total	$ 46,893	$ (10,146)	$ 906	$ 5,069	$ 9,295	$ 52,017	$ (1,614)
Liabilities:							
Policyholders' contract deposits	$ (3,674)	$ 56	$ (8)	$ (656)	$ –	$ (4,282)	$ 398
Financial Services liabilities:		–					
Securities sold under agreements to repurchase	(208)	(15)	–	(49)	222	(50)	(5)
Unrealized loss on swaps, options and forward transactions, net	(11,718)	(19,785)	–	(222)	83	(31,642)	(20,631)
Other long-term borrowings	(3,578)	1,120	–	1,268	388	(802)	(522)
Other liabilities	(503)	(70)	(2)	534	(8)	(49)	33
Total	$ (19,681)	$ (18,694)	$ (10)	$ 875	$ 685	$ (36,825)	$ (20,727)

(a) Total Level 3 derivative exposures have been netted on these tables for presentation purposes only.

3. Fair Value Measurements *(continued)*

(b) Net realized and unrealized gains and losses shown above are reported in the consolidated statement of income (loss) primarily as follows:

Major category of Assets/Liabilities	Consolidated Statement of Income (Loss) Line Items
Financial Services assets and liabilities	• Other income • Unrealized market valuation losses on AIGFP super senior credit default swap portfolio
Securities lending invested collateral	• Net realized capital gains (losses)
Other invested assets	• Net realized capital gains (losses)
Policyholders' contract deposits	• Incurred policy losses and benefits • Net realized capital gains (losses)

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at September 30, 2008 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

AIG uses various hedging techniques to manage risks associated with certain positions, including those classified within Level 3. Such techniques may include the purchase or sale of financial instruments that are classified within Level 1 and/or Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities classified within Level 3 presented in the table above do not reflect the related realized or unrealized gains (losses) on hedging instruments that are classified within Level 1 and/or Level 2.

Changes in the fair value of separate and variable account assets are completely offset in the consolidated statement of income (loss) by changes in separate and variable account liabilities, which are not carried at fair value and therefore not included in the tables above.

Fair Value Measured on a Non-Recurring Basis

AIG measures the fair value of certain assets on a non-recurring basis, generally quarterly, or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. These assets include goodwill, real estate owned, real estate loans held for sale, and other intangible assets.

Assets measured at fair value on a non-recurring basis on which impairment charges were recorded were as follows:

(in millions)	Level 1	Level 2	Level 3	Total	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Goodwill	$ –	$ –	$ –	$ –	$ 432	$ 477
Real estate owned	–	–	1,358	1,358	100	102
Other investments	–	–	3,883	3,883	75	85
Other assets	–	7	190	197	2	53
Total	$ –	$ 7	$ 5,431	$ 5,438	$ 609	$ 717

AIG recognized goodwill impairment charges of $432 million and $477 million for the three and nine months ended September 30, 2008, which were primarily related to the domestic Consumer Finance and the Capital Markets businesses.

AIG recognized an impairment charge on certain investment real estate and other real estate owned of $100 million and $102 million for the three and nine months ended September 30, 2008, respectively, which was included in other income. As required by FAS 157, the fair value disclosed in the table above is unadjusted for transaction costs. The amounts recorded on the consolidated balance sheet are net of transaction costs.

Fair Value Option

FAS 159 permits a company to choose to measure at fair value many financial instruments and certain other assets and liabilities that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in income. Unrealized gains and losses on financial instruments in AIG's insurance businesses and in AIGFP for which the fair value option was elected under FAS 159 are classified in incurred policy losses and benefits and in other income, respectively, in the consolidated statement of income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

The following table presents the gains or losses recorded during the three- and nine-month periods ended September 30, 2008 related to the eligible instruments for which AIG elected the fair value option and the related transition adjustment recorded as a decrease to opening shareholders' equity at January 1, 2008:

(in millions)	January 1, 2008 prior to Adoption	Transition Adjustment upon Adoption	January 1, 2008 after Adoption	Gain (Loss) Three Months Ended September 30, 2008	Gain (Loss) Nine Months Ended September 30, 2008
Mortgage and other loans receivable	$ 1,109	$ –	$ 1,109	$ (74)	$ 5
Financial Services assets(a):					
Trading securities (formerly available for sale)	39,278	5	39,283	(3,886)	(5,037)
Securities purchased under agreements to resell	20,950	1	20,951	(180)	395
Other invested assets	321	(1)	320	(24)	(12)
Short-term investments	6,969	–	6,969	(2)	65
Deferred policy acquisition costs	1,147	(1,147)	–	–	–
Other assets	435	(435)	–	–	–
Future policy benefits for life, accident and health insurance contracts	299	299	–	–	–
Policyholders' contract deposits(b)	3,739	360	3,379	416	534
Financial Services liabilities(a):					
Securities sold under agreements to repurchase	6,750	(10)	6,760	339	(77)
Securities and spot commodities sold but not yet purchased	3,797	(10)	3,807	157	144
Trust deposits and deposits due to banks and other depositors	216	(25)	241	24	13
Long-term borrowings	57,968	(675)	58,643	294	(97)
Other liabilities	1,792	–	1,792	1,266	947
Total gain (loss) for the three- and nine-month periods ended September 30, 2008 (c)				$ (1,670)	$ (3,120)
Pre-tax cumulative effect of adopting the fair value option		(1,638)			
Decrease in deferred tax liabilities		526			
Cumulative effect of adopting the fair value option		$ (1,112)			

(a) Effective January 1, 2008, AIGFP elected to apply the fair value option under FAS 159 to all eligible assets and liabilities (other than equity method investments, trade receivables and trade payables) because electing the fair value option allows AIGFP to more closely align its earnings with the economics of its transactions by recognizing concurrently through earnings the change in fair value of its derivatives and the offsetting change in fair value of the assets and liabilities being hedged as well as the manner in which the business is evaluated by management. Substantially all of the gain (loss) amounts shown above are reported in other income on the consolidated statement of income (loss). In August 2008, AIGFP modified prospectively this election as management believes it is appropriate to exclude from the automatic election securities purchased in connection with existing structured credit transactions and their related funding obligations. AIGFP will evaluate whether to elect the fair value option on a case-by-case basis for securities purchased in connection with existing structured credit transactions and their related funding obligations.

(b) AIG elected to apply the fair value option to certain single premium variable life products in Japan and an investment-linked life insurance product sold principally in Asia, both classified within policyholders' contract deposits in the consolidated balance sheet. AIG elected the fair value option for these liabilities to more closely align its accounting with the economics of its transactions. For the investment-linked product sold principally in Asia, the election more effectively aligns changes in the fair value of assets with a commensurate change in the fair value of policyholders' liabilities. For the single premium life products in Japan, the fair value option election allows AIG to economically hedge the inherent market risks associated with this business in an efficient and effective manner through the use of derivative instruments. The hedging program, which was completed in the third quarter of 2008, results in an accounting presentation for this business that more closely reflects the underlying economics and the way the business is managed, with the change in the fair value of derivatives and underlying assets largely offsetting the change in fair value of the policy liabilities. AIG did not elect the fair value option for other liabilities classified in policyholders' contract deposits because other contracts do not share the same contract features that created the disparity between the accounting presentation and the economic performance.

(c) Not included in the table above were losses of $9.6 billion and $23.2 billion for the three- and nine-month periods ended September 30, 2008, respectively, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets for which the fair value option under FAS 159 was not elected. Included in these amounts were unrealized market valuation losses of $7.1 billion and $21.7 billion for the three- and nine-months periods ended September 30, 2008, respectively, related to AIGFP's super senior credit default swap portfolio.

3. Fair Value Measurements *(continued)*

Interest income and expense and dividend income on assets and liabilities elected under the fair value option are recognized and classified in the consolidated statement of income (loss) depending on the nature of the instrument and related market conventions. For AIGFP related activity, interest, dividend income, and interest expense are included in other income. Otherwise, interest and dividend income are included in net investment income in the consolidated statement of income (loss). See Note 1(a) to the Consolidated Financial Statements included in the 2007 Annual Report on Form 10-K for additional information about AIG's policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

During the three- and nine-month periods ended September 30, 2008, AIG recognized a loss of $184 million and a gain of $1.1 billion, respectively, attributable to the observable effect of changes in credit spreads on AIG's own liabilities for which the fair value option was elected. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, AIG's observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as collateral posted.

The following table presents the difference between fair values and the aggregate contractual principal amounts of mortgage and other loans receivable and long-term borrowings, for which the fair value option was elected:

(in millions)	Fair Value at September 30, 2008	Principal Amount Due Upon Maturity	Difference
Assets:			
Mortgage and other loans receivable	$ 328	$ 378	$ (50)
Liabilities:			
Long-term borrowings	$36,464	$36,065	$399

At September 30, 2008, there were no mortgage and other loans receivable for which the fair value option was elected, that were 90 days or more past due and in non-accrual status.

4. Revolving Credit Agreement and Guarantee and Pledge Agreement between AIG and the Federal Reserve Bank of New York

On September 22, 2008, AIG entered into the $85 billion Fed Credit Agreement and a Guarantee and Pledge Agreement (the Pledge Agreement) with the NY Fed.

The Fed Facility has a two-year term. Outstanding borrowings bear interest at 3-month LIBOR (not less than 3.5 percent per annum) plus 8.5 percent per annum. AIG incurred, in the form of an increase in the outstanding loan balance under the Fed Credit Agreement, a gross commitment fee of $1.7 billion, which was paid in kind and was recognized as a prepaid commitment asset. Pursuant to the Fed Credit Agreement, in consideration for the NY Fed's extension of credit under the Fed Facility and the payment of $500,000, AIG agreed to issue 100,000 shares, liquidation preference $5.00 per share, of the Series C Preferred Stock to the Trust. The Series C Preferred Stock was not yet issued as of September 30, 2008. Accordingly, additional paid-in capital has been increased to reflect a prepaid commitment fee which represents AIG's obligation to issue the Series C Preferred Stock in the fourth quarter of 2008. The value of the Series C Preferred Stock was also recognized as part of the prepaid commitment asset. The total prepaid commitment fee asset of $24.7 billion is being amortized as interest expense through the term of the facility. AIG also incurs a commitment fee on undrawn amounts at the rate of 8.5 percent per annum, which is recognized as interest expense when incurred.

Interest and the commitment fees are payable in kind and generally recognized through an increase in the outstanding balance under the Fed Facility.

AIG is required to repay the Fed Facility primarily from proceeds on sales of assets, including businesses. These mandatory repayments permanently reduce the maximum amount available to be borrowed under the Fed Facility. Additionally, AIG is permitted to repay any portion of the amounts borrowed at any time prior to the maturity of the Fed Facility, without penalty. Voluntary repayments do not reduce the maximum amount available to be borrowed.

The Fed Credit Agreement contains customary affirmative and negative covenants, including a requirement to maintain a minimum amount of liquidity and a requirement to use reasonable efforts to cause the composition of the Board of Directors of AIG to be satisfactory to the Trust within 10 days after the establishment of the Trust. Borrowings under the Fed Facility are conditioned, among other things, on the NY Fed being satisfied with AIG's corporate governance and the value of the collateral.

The Fed Facility is secured by a pledge of the capital stock and assets of certain of AIG's subsidiaries, subject to exclusions of certain property not permitted to be pledged under AIG debt agreements and its Restated Certificate of Incorporation, as well as exclusions of assets of regulated subsidiaries, assets of foreign subsidiaries and assets of special purpose vehicles. The exclusion of these assets from the pledge assures that AIG has not pledged all or substantially all of its assets to the NY Fed.

4. Revolving Credit Agreement and Guarantee and Pledge Agreement between AIG and the Federal Reserve Bank of New York *(continued)*

At September 30, 2008, the amount owed under the Fed Facility totaled $63 billion, which included accrued fees and interest of $2 billion added to the principal of cash borrowings. The amount available to be borrowed under the Fed Facility is not generally reduced for the amount of fees and interest added to cash borrowings.

See Note 11 to the Consolidated Financial Statements, regarding borrowings under the Fed Facility and amendments to the Fed Credit Agreement subsequent to September 30, 2008.

5. Shareholders' Equity and Earnings (Loss) Per Share

Shareholders' Equity

Series C Perpetual, Convertible, Participating Preferred Stock

Pursuant to the Fed Credit Agreement, AIG agreed to issue 100,000 shares of Series C Preferred Stock to the Trust in the fourth quarter of 2008.

Under the terms of the Fed Credit Agreement prior to its amendment on November 9, 2008, the terms of the Series C Preferred Stock were as follows: The Series C Preferred Stock will have voting rights commensurate with an approximately 79.9 percent holding of all outstanding shares of common stock. Holders of the Series C Preferred Stock will be entitled to participate in dividends paid on the common stock, receiving up to 79.9 percent of the aggregate amount of dividends paid on the shares of common stock then outstanding. After the Series C Preferred Stock is issued, AIG will be required to hold a special shareholders' meeting to amend its restated certificate of incorporation to increase the number of authorized shares of common stock to 19 billion and to reduce the par value per share. The holders of the common stock will be entitled to vote as a class separate from the holders of the Series C Preferred Stock on these changes to AIG's Restated Certificate of Incorporation. If the increase in the number of authorized shares and change in par value is approved, the Series C Preferred Stock will become convertible into common stock. The number of shares into which the Series C Preferred Stock will be convertible is that which will result in a 79.9 percent holding, after conversion, based upon the number of common shares outstanding on the issue date of the Series C Preferred Stock, plus the number of common shares that are subsequently issued in settlement of Equity Units. Subject to certain exceptions, while the United States Treasury beneficially owns at least 50 percent of the Series C Preferred Stock (or the shares into which the Series C Preferred Stock is convertible), AIG will be prohibited from issuing any capital stock, or any securities or instruments convertible or exchangeable into, or exercisable for, capital stock, without the Trust's consent. In addition, AIG is required to enter into a registration rights agreement that will provide demand registration rights for the Series C Preferred Stock and will require AIG to apply for the listing on the NYSE of the common stock underlying the Series C Preferred Stock. As described in Note 11 to the Consolidated Financial Statements, the November 9, 2008 agreement in principle provides that AIG will issue 10-year warrants to the United States Treasury, and the number of shares into which the Series C Preferred Stock will be convertible will be reduced so as not to exceed 77.9 percent of the outstanding shares of common stock.

AIG received the consideration in the form of the Fed Facility for the Series C Preferred Stock in the third quarter of 2008 and recorded the fair value of the Series C Preferred Stock, $23 billion, as an increase to additional paid-in capital. The value, net of the $500,000 cash portion of the consideration, was recognized as an addition to the prepaid commitment fee asset associated with the Fed Facility.

The valuation of the consideration received for the Series C Preferred Stock that AIG agreed to issue was determined by AIG and was primarily based on the implied value of 79.9 percent of AIG indicated by AIG's common stock price after the terms of the Fed Credit Agreement were publicly announced. Other valuation techniques were employed to corroborate this value, taking into consideration both market observable inputs, such as AIG credit spreads, and other inputs. The following key assumptions were utilized in the valuation:

- The valuation date for the Series C Preferred Stock was the date at which consideration was received for the obligation to issue the Series C Preferred Stock, that is, the date borrowings were made available to AIG pursuant to the NY Fed's agreement to enter into the Fed Credit Agreement.
- The Series C Preferred Stock will be economically equivalent to the common stock, will have voting rights commensurate with the common stock, and will be convertible into shares of common stock.
- The price of AIG common stock the day after the announcement of the terms of the NY Fed's agreement to enter into the Fed Credit Agreement provided the most observable market evidence of the valuation of AIG.

Basic and diluted EPS will be affected in any period in which AIG has net income. The effect on basic EPS will be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

computed using the two-class method, pursuant to which the earnings of the period will be allocated between the preferred shareholders and the common shareholders, determined on the same basis as if all the earnings were distributed. Prior to any partial conversion of the Series C Preferred Stock, this will result in 79.9 percent of the earnings for the period being allocated to the Series C Preferred Stock, directly reducing the net income available for common shareholders. Diluted EPS will be computed on the more dilutive of the if-converted method and the two-class method. Under the if-converted method, conversion of the Series C Preferred Stock is assumed to have occurred as of the beginning of the period, and the number of common shares that would be issued on conversion is assumed to be the number of additional shares outstanding for the period. Because AIG had losses for the three- and nine-month periods ended September 30, 2008, the Series C Preferred Stock was anti-dilutive to basic and diluted EPS.

Dividends

The quarterly dividend per common share declared in May 2008 and paid on September 19, 2008 was $0.22. Effective September 23, 2008, AIG's Board of Directors suspended the declaration of dividends on AIG's common stock. Pursuant to the Fed Credit Agreement, AIG is restricted from paying dividends on its common stock.

Share Issuance and Repurchase

In February 2007, AIG's Board of Directors increased AIG's share repurchase program by authorizing the purchase of shares with an aggregate purchase price of $8 billion. In November 2007, AIG's Board of Directors authorized the purchase of an additional $8 billion in common stock. In 2007, AIG entered into structured share repurchase arrangements providing for the purchase of shares over time with an aggregate purchase price of $7 billion.

A total of 37,926,059 shares were purchased during the first six months of 2008 to meet commitments that existed at December 31, 2007. There were no repurchases during the third quarter of 2008. At October 31, 2008, $9 billion was available for purchases under the aggregate authorizations.

Pursuant to the Fed Credit Agreement, AIG is restricted from repurchasing shares of its common stock.

In May 2008, AIG sold 196,710,525 shares of common stock at a price per share of $38 for gross proceeds of $7.47 billion and 78,400,000 equity units (the Equity Units) at a price per unit of $75 for gross proceeds of $5.88 billion. The Equity Units, the key terms of which are summarized below, are recorded as long-term borrowings in the consolidated balance sheet.

Equity Units

Each Equity Unit has an initial stated amount of $75 and consists of a stock purchase contract issued by AIG and, initially, a 1/40th or 2.5 percent undivided beneficial ownership interest in three series of junior subordinated debentures (Series B-1, B-2 and B-3), each with a principal amount of $1,000.

Each stock purchase contract requires its holder to purchase, and requires AIG to sell, a variable number of shares of AIG common stock for $25 in cash on each of the following dates: February 15, 2011, May 1, 2011 and August 1, 2011. The number of shares that AIG is obligated to deliver on each stock purchase date is set forth in the chart below (where the "applicable market value" is an average of the trading prices of AIG's common stock over the 20-trading-day period ending on the third business day prior to the relevant stock purchase date).

If the applicable market value is:	then AIG is obligated to issue:
• Greater than or equal to $45.60	• 0.54823 shares per stock purchase contract
• Between $45.60 and $38.00	• Shares equal to $25 divided by the applicable market value
• Less than or equal to $38.00	• 0.6579 shares per stock purchase contract

Basic earnings (loss) per share (EPS) will not be affected by outstanding stock purchase contracts. Diluted EPS will be determined considering the potential dilution from outstanding stock purchase contracts using the treasury stock method, and therefore diluted EPS will not be affected by outstanding stock purchase contracts until the applicable market value exceeds $45.60.

AIG is obligated to pay quarterly contract adjustment payments to the holders of the stock purchase contracts, at an initial annual rate of 2.7067 percent applied to the stated amount. The present value of the contract adjustment payments, $431 million, was recognized at inception as a liability (a component of other liabilities), and was recorded as a reduction to additional paid-in capital.

In addition to the stock purchase contracts, as part of the Equity Units, AIG issued $1.96 billion of each of the Series B-1, B-2 and B-3 junior subordinated debentures, which initially pay interest at rates of 5.67 percent, 5.82 percent and 5.89 percent, respectively. For accounting purposes, AIG allocated the proceeds of the Equity Units between the stock purchase contracts and the junior subordinated debentures on a relative fair value basis. AIG determined that the fair value of the stock purchase contract at issuance was zero, and therefore all of the proceeds were allocated to the junior subordinated debentures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

Share-based Employee Compensation Plans

During the first quarter of 2008, AIG reviewed the vesting schedules of its share-based employee compensation plans, and on March 11, 2008, AIG's management and the Compensation and Management Resources Committee of AIG's Board of Directors determined that, to fulfill the objective of attracting and retaining high quality personnel, the vesting schedules of certain awards outstanding under these plans and all awards made in the future under these plans should be shortened.

For accounting purposes, a modification of the terms or conditions of an equity award is treated as an exchange of the original award for a new award. As a result of this modification, the incremental compensation cost related to the affected awards totaled $24 million and will, together with the unamortized originally-measured compensation cost, be amortized over shorter periods. AIG estimates the modifications will increase the amortization of this cost by $106 million and $46 million in 2008 and 2009, respectively, with a related reduction in amortization expense of $128 million in 2010 through 2013.

In the second quarter of 2008, reversals of previously accrued costs related to certain performance-based compensation plans were made, as performance to date was below the performance thresholds set forth in those plans.

Earnings (Loss) Per Share (EPS)

Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding.

The computation of basic and diluted EPS was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	**2008**	2007	**2008**	2007
Numerator for EPS:				
Net income (loss)	**$ (24,468)**	$ 3,085	**$ (37,630)**	$ 11,492
Denominator for EPS:				
Weighted average shares outstanding used in the computation of EPS:				
Common stock issued	**2,948**	2,751	**2,850**	2,751
Common stock in treasury	**(259)**	(189)	**(251)**	(168)
Deferred shares	**14**	14	**14**	13
Weighted average shares outstanding – basic*	**2,703**	2,576	**2,613**	2,596
Incremental shares arising from awards outstanding under share-based employee compensation plans*	**–**	13	**–**	13
Weighted average shares outstanding – diluted*	**2,703**	2,589	**2,613**	2,609
EPS:				
Basic	**$ (9.05)**	$ 1.20	**$ (14.40)**	$ 4.43
Diluted	**$ (9.05)**	$ 1.19	**$ (14.40)**	$ 4.40

* *Calculated using the treasury stock method. Certain potential common shares arising from share-based employee compensation plans were not included in the computation of diluted EPS because the effect would have been anti-dilutive. The number of potential shares excluded was 7 million for the nine-month period ended September 30, 2007. Additionally, the Preferred Stock to be issued was not included in the computation of basic or diluted EPS because the effect would have been anti-dilutive.*

6. Ownership

According to the Schedule 13D/A filed on October 30, 2008, by C.V. Starr & Co., Inc. (Starr), Starr International Company, Inc. (SICO), Edward E. Matthews, Maurice R. Greenberg, the Maurice R. and Corinne P. Greenberg Family Foundation, Inc., the Universal Foundation, Inc., the Maurice R. and Corinne P. Greenberg Joint Tenancy Company, LLC and the C.V. Starr & Co., Inc. Trust, these reporting persons could be considered to beneficially own 278,430,935 shares or approximately 10 percent of AIG's common stock at that date. Although these reporting persons may have made filings under Section 16 of the Exchange Act, reporting sales of shares of common stock, no amendment to the Schedule 13D has been filed to report a change in ownership subsequent to October 30, 2008.

7. Commitments, Contingencies and Guarantees

(a) Litigation and Investigations

AIG and its subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. At the current time, AIG cannot predict the outcome of the matters described below, or estimate any potential additional costs related to these matters, unless otherwise indicated. In AIG's insurance operations,

7. Commitments, Contingencies and Guarantees *(continued)*

litigation arising from claims settlement activities is generally considered in the establishment of AIG's reserve for losses and loss expenses. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation.

Various federal, state and foreign regulatory and governmental agencies are reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with industry wide and other inquiries. These reviews include the inquiries by the SEC and U.S. Department of Justice (DOJ), previously confirmed by AIG, with respect to AIG's valuation of and disclosures relating to the AIGFP super senior credit default swap portfolio. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

In connection with some of the SEC investigations, AIG understands that some of its employees have received Wells notices and it is possible that additional current and former employees could receive similar notices in the future. Under SEC procedures, a Wells notice is an indication that the SEC staff has made a preliminary decision to recommend enforcement action that provides recipients with an opportunity to respond to the SEC staff before a formal recommendation is finalized.

Although AIG cannot currently quantify its ultimate liability for the unresolved litigation and investigation matters referred to below, it is possible that such liability could have a material adverse effect on AIG's consolidated financial condition, or consolidated results of operations for an individual reporting period.

Litigation Relating to AIGFP's Super Senior Credit Default Swap Portfolio

Securities Actions – Southern District of New York. On May 21, 2008, a purported securities fraud class action complaint was filed against AIG and certain of its current and former officers and directors in the United States District Court for the Southern District of New York (the Southern District of New York). The complaint alleges that defendants made statements during the period May 11, 2007 through May 9, 2008 in press releases, AIG's quarterly and year-end filings and during conference calls with analysts which were materially false and misleading and which artificially inflated the price of AIG's stock. The alleged false and misleading statements relate to, among other things, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio as a result of severe credit market disruption. The complaint alleges claims under Sections 10(b) and 20(a) of the Exchange Act. Three additional purported securities class action complaints were subsequently filed in the Southern District of New York, all containing similar allegations. One of the additional complaints filed on June 19, 2008, alleges a purported class period of November 10, 2006 through June 6, 2008. The Court has not yet appointed a lead plaintiff in these actions.

On October 9, 2008, a purported securities class action complaint was filed in the Southern District of New York on behalf of purchasers of 7.70 percent Series A-5 Junior Subordinated Debentures in connection with AIG's public offering on December 11, 2007 against AIG, certain of its current and former officers and directors, and the offering underwriters. The complaint alleges that defendants made statements in AIG's registration statement, prospectus and quarterly and year-end filings which were materially false and misleading, in violation of Sections 11, 12(a) and 15 of the Securities Act of 1933. The claims are based generally on the same allegations as the securities fraud class actions described above. One additional purported securities class action complaint was filed in the Southern District of New York on October 24, 2008, containing identical allegations.

ERISA Actions – Southern District of New York. On June 25, 2008, the Company, certain of its executive officers and directors, and unnamed members of the Company's Retirement Board and Investment Committee were named as defendants in two separate, though nearly identical, actions filed in the Southern District of New York. The actions purport to be brought as class actions on behalf of all participants in or beneficiaries of certain pension plans sponsored by AIG or its subsidiaries (the Plans) during the period May 11, 2007 through the present and whose participant accounts included investments in the Company's common stock. Plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to Plan participants and their beneficiaries under the Employee Retirement Income Security Act of 1974, as amended (ERISA), by: (i) failing to prudently and loyally manage the Plans and the Plans' assets; (ii) failing to provide complete and accurate information to participants and beneficiaries about the Company and the value of the Company's stock; (iii) failing to monitor appointed Plan fiduciaries and to provide them with complete and accurate information; and (iv) breaching their duty to avoid conflicts of interest. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose unrealized market valuation losses on AIGFP's super senior credit default swap portfolio as a result of severe credit market disruption. Six additional purported ERISA class action complaints were subsequently filed in the Southern District of New York, each containing similar allegations. It is anticipated that these actions will all be consolidated and that

7. Commitments, Contingencies and Guarantees *(continued)*

the Court will then appoint a lead plaintiff in the consolidated action.

Derivative Actions – Southern District of New York. On November 20, 2007, two purported shareholder derivative actions were filed in the Southern District of New York naming as defendants the then current directors of AIG and certain senior officers of AIG and its subsidiaries. Plaintiffs assert claims for breach of fiduciary duty, waste of corporate assets and unjust enrichment, as well as violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act, among other things, in connection with AIG's public disclosures regarding its exposure to what the lawsuits describe as the subprime market crisis. The actions were consolidated as In re American International Group, Inc. 2007 Derivative Litigation (the Consolidated 2007 Derivative Litigation). On February 15, 2008, plaintiffs filed a consolidated amended complaint alleging the same causes of action. On April 15, 2008, motions to dismiss the action were filed on behalf of all defendants. The motions to dismiss are pending.

On August 8, 2008, a purported shareholder derivative action was filed in the Southern District of New York asserting claims on behalf of AIG based generally on the same allegations as in the consolidated amended complaint in the Consolidated 2007 Derivative Litigation.

Derivative Action – Supreme Court of New York. On February 29, 2008, a purported shareholder derivative complaint was filed in the Supreme Court of Nassau County, asserting the same state law claims against the same defendants as in the consolidated amended complaint in the Consolidated 2007 Derivative Litigation. On May 19, 2008, defendants filed a motion to dismiss or to stay the proceedings in light of the pending Consolidated 2007 Derivative Litigation. The motion is pending.

Derivative Action – Delaware Court of Chancery. On September 17, 2008, a purported shareholder derivative complaint was filed in the Court of Chancery of Delaware naming as defendants certain directors and senior officers of AIG and its subsidiaries and asserting claims on behalf of AIG based generally on the same allegations as in the consolidated amended complaint in the Consolidated 2007 Derivative Litigation.

Action by the Starr Foundation – Supreme Court of New York. On May 7, 2008, the Starr Foundation filed a complaint in New York State Supreme Court against AIG, AIG's former Chief Executive Officer, Martin Sullivan, and AIG's then Chief Financial Officer, Steven Bensinger, asserting a claim for common law fraud. The complaint alleges that the defendants made materially misleading statements and omissions concerning alleged multi-billion dollar losses in AIG's portfolio of credit default swaps. The complaint asserts that if the Starr Foundation had known the truth about the alleged losses, it would have sold its remaining shares of AIG stock. The complaint alleges that the Starr Foundation has suffered damages of at least $300 million. On May 30, 2008, a motion to dismiss the complaint was filed on behalf of defendants. The motion to dismiss, which has been converted by the court into a motion for summary judgment, is still pending.

Litigation Relating to the Credit Agreement with the NY Fed

On November 4, 2008, a purported class action was filed in the Delaware Court of Chancery naming as defendants AIG, Chairman and Chief Executive Officer, Edward M. Liddy, and current and past AIG directors. Plaintiff alleges violations of Delaware General Corporation Law Section 242(b)(2) and breaches of fiduciary duty in connection with the Series C Preferred Stock to be issued to the Trust created for the benefit of the United States Treasury pursuant to the Fed Credit Agreement. Plaintiff seeks an order declaring that the Series C Preferred Stock is not convertible into common stock absent a class vote by the holders of the common stock to amend the Restated Certificate of Incorporation to increase the number of authorized common shares and decrease the par value of the common shares, an order declaring that AIG's directors are breaching their fiduciary duties in not seeking alternative or supplemental financing in advance of a stockholder vote on such an amendment to the Restated Certificate of Incorporation, and damages. During a conference with the Court on November 7, 2008, AIG's counsel stated that any amendment to the Restated Certificate of Incorporation to increase the number of authorized common shares or to decrease the par value of the common shares would be the subject of a class vote by the holders of the common stock, and plaintiff's counsel agreed that the plaintiff's request for an order granting this relief is moot.

2006 Regulatory Settlements and Related Matters

2006 Regulatory Settlements. In February 2006, AIG reached a resolution of claims and matters under investigation with the DOJ, the SEC, the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). AIG recorded an after-tax charge of $1.15 billion relating to these settlements in the fourth quarter of 2005. The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. These settlements did not, however, resolve

7. Commitments, Contingencies and Guarantees *(continued)*

investigations by regulators from other states into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately $1.64 billion, $225 million of which represented fines and penalties. Amounts held in escrow totaling approximately $337 million, including interest thereon, are included in other assets at September 30, 2008. At that date, all of the funds were escrowed for settlement of claims resulting from the underpayment by AIG of its residual market assessments for workers' compensation.

In addition to the escrowed funds, $800 million was deposited into a fund under the supervision of the SEC as part of the settlements to be available to resolve claims asserted against AIG by investors, including the securities class action shareholder lawsuits described below.

Also, as part of the settlements, AIG agreed to retain, for a period of three years, an independent consultant to conduct a review that will include, among other things, the adequacy of AIG's internal control over financial reporting, the policies, procedures and effectiveness of AIG's regulatory, compliance and legal functions and the remediation plan that AIG has implemented as a result of its own internal review.

Other Regulatory Settlements. AIG's 2006 regulatory settlements with the SEC, DOJ, NYAG and DOI did not resolve investigations by regulators from other states into insurance brokerage practices. AIG entered into agreements effective January 29, 2008 with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia; the Commonwealths of Massachusetts and Pennsylvania; and the District of Columbia; as well as the Florida Department of Financial Services and the Florida Office of Insurance Regulation, relating to their respective industry wide investigations into producer compensation and insurance placement practices. The settlements call for total payments of $12.5 million to be allocated among the ten jurisdictions representing restitution to state agencies and reimbursement of the costs of the investigation. During the term of the settlement agreements, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. AIG will also continue to cooperate with the industry wide investigations. The agreement with the Texas Attorney General also settles allegations of anticompetitive conduct relating to AIG's relationship with Allied World Assurance Company and includes an additional settlement payment of $500,000 related thereto.

AIG entered into an agreement effective March 13, 2008 with the Pennsylvania Insurance Department relating to the Department's investigation into the affairs of AIG and certain of its Pennsylvania-domiciled insurance company subsidiaries. The settlement calls for total payments of approximately $13.5 million, of which approximately $4.4 million was paid under previous settlement agreements. During the term of the settlement agreement, AIG will provide annual reinsurance reports, as well as maintain certain producer compensation disclosure and ongoing compliance initiatives.

NAIC Examination of Workers Compensation Premium Reporting. During 2006, the Settlement Review Working Group of the National Association of Insurance Commissioners (NAIC), under the direction of the states of Indiana, Minnesota and Rhode Island, began an investigation into AIG's reporting of workers' compensation premiums. In late 2007, the Settlement Review Working Group recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. AIG has been advised that the lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania, and Rhode Island and that all other states (and the District of Columbia) have agreed to participate. AIG has also been advised that the examination will focus on both legacy issues and AIG's current compliance with legal requirements applicable to AIG's writing and reporting of workers' compensation insurance, but as of October 31, 2008 no determinations had been made with respect to these issues.

Securities Action – Southern District of New York. Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as In re American International Group, Inc. Securities Litigation. Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds. The lead plaintiff in the class action is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG's publicly traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as Starr, SICO, General Reinsurance Corporation (General Re), and PricewaterhouseCoopers LLP (PwC), among others. The lead plaintiff alleges, among other things, that AIG: (1) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (2) concealed that it used

7. Commitments, Contingencies and Guarantees *(continued)*

"income smoothing" products and other techniques to inflate its earnings; (3) concealed that it marketed and sold "income smoothing" insurance products to other companies; and (4) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that AIG's former Chief Executive Officer, Maurice R. Greenberg, manipulated AIG's stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act of 1933, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, Section 20(a) of the Exchange Act, and Section 20A of the Exchange Act. In April 2006, the court denied the defendants' motions to dismiss the second amended class action complaint and the Florida complaint. In December 2006, a third amended class action complaint was filed, which does not differ substantially from the prior complaint. Fact and class discovery is currently ongoing. On February 20, 2008, the lead plaintiff filed a motion for class certification. The class certification motion is pending.

ERISA Action – Southern District of New York. Between November 30, 2004 and July 1, 2005, several ERISA actions were filed in the Southern District of New York on behalf of purported class participants and beneficiaries of three pension plans sponsored by AIG or its subsidiaries. A consolidated complaint filed on September 26, 2005 alleges a class period between September 30, 2000 and May 31, 2005 and names as defendants AIG, the members of AIG's Retirement Board and the Administrative Boards of the plans at issue, and present or former members of AIG's Board of Directors. The factual allegations in the complaint are essentially identical to those in the securities actions described above. The parties have reached an agreement to settle this matter for an amount within AIG's insurance coverage limits. On July 3, 2008, the Court granted preliminary approval of the settlement, and at a hearing on October 7, 2008 the Court issued an order finally approving the settlement, dismissing the action with prejudice. The deadline for filing an appeal from the approval order is November 7, 2008.

Derivative Action – Southern District of New York. Between October 25, 2004 and July 14, 2005, seven separate derivative actions were filed in the Southern District of New York, five of which were consolidated into a single action (the New York 2004/2005 Derivative Litigation). The complaint in this action contains nearly the same types of allegations made in the securities fraud action described above. The named defendants include current and former officers and directors of AIG, as well as Marsh & McLennan Companies, Inc. (Marsh), SICO, Starr, ACE Limited and subsidiaries (ACE), General Re, PwC, and certain employees or officers of these entity defendants. Plaintiffs assert claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, insider selling, auditor breach of contract, auditor professional negligence and disgorgement from AIG's former Chief Executive Officer, Maurice R. Greenberg, and former Chief Financial Officer, Howard I. Smith, of incentive-based compensation and AIG share proceeds under Section 304 of the Sarbanes-Oxley Act, among others. Plaintiffs seek, among other things, compensatory damages, corporate governance reforms, and a voiding of the election of certain AIG directors. AIG's Board of Directors has appointed a special committee of independent directors (Special Committee) to review the matters asserted in the operative consolidated derivative complaint. The court has entered an order staying this action pending resolution of the Delaware 2004/2005 Derivative Litigation discussed below. The court also has entered an order that termination of certain named defendants from the Delaware action applies to this action without further order of the court. On October 17, 2007, plaintiffs and those AIG officer and director defendants against whom the shareholder plaintiffs in the Delaware action are no longer pursuing claims filed a stipulation providing for all claims in this action against such defendants to be dismissed with prejudice. Former directors and officers Maurice R. Greenberg and Howard I. Smith have asked the court to refrain from so ordering this stipulation.

Derivative Actions – Delaware Chancery Court. From October 2004 to April 2005, AIG shareholders filed five derivative complaints in the Delaware Chancery Court. All of these derivative lawsuits were consolidated into a single action as In re American International Group, Inc. Consolidated Derivative Litigation (the Delaware 2004/2005 Derivative Litigation). The amended consolidated complaint named 43 defendants (not including nominal defendant AIG) who, as in the New York 2004/2005 Derivative Litigation, were current and former officers and directors of AIG, as well as other entities and certain of their current and former employees and directors. The factual allegations, legal claims and relief sought in this action are similar to those alleged in the New York 2004/2005 Derivative Litigation, except that the claims are only under state law. In early 2007, the court approved an agreement that AIG be realigned as plaintiff, and, on June 13, 2007, acting on the direction of the Special Committee, AIG filed an amended complaint against former directors and officers Maurice R. Greenberg and Howard I. Smith, alleging breach of fiduciary duty and indemnification. Also on June 13, 2007, the Special Committee filed a motion to terminate the litigation as to certain defendants, while taking no action as to others. Defendants Greenberg and Smith filed answers to AIG's complaint and brought third-party complaints against certain current and former AIG directors and officers, PwC and Regulatory Insurance Services, Inc. On September 28, 2007, AIG and the shareholder plaintiffs filed a combined amended complaint in which AIG continued to assert claims

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

7. Commitments, Contingencies and Guarantees *(continued)*

against defendants Greenberg and Smith and took no position as to the claims asserted by the shareholder plaintiffs in the remainder of the combined amended complaint. In that pleading, the shareholder plaintiffs are no longer pursuing claims against certain AIG officers and directors. On February 12, 2008, the court granted AIG's motion to stay discovery pending the resolution of claims against AIG in the New York consolidated securities action. The court also directed the parties to coordinate a briefing schedule for the motions to dismiss. On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which added claims against former AIG directors and officers Maurice Greenberg, Edward Matthews, and Thomas Tizzio for breach of fiduciary duty based on alleged bid-rigging in the municipal derivatives market. On June 13, 2008, certain defendants filed motions to dismiss the shareholder plaintiffs' portions of the complaint. The motions to dismiss are pending.

AIG is also named as a defendant in a derivative action in the Delaware Chancery Court brought by shareholders of Marsh. On July 10, 2008, shareholder plaintiffs filed a second consolidated amended complaint, which contains claims against AIG for aiding and abetting a breach of fiduciary duty and contribution and indemnification in connection with alleged bid-rigging and steering practices in the commercial insurance market that are the subject of the Policyholder Antitrust and RICO Actions described below.

Policyholder Antitrust and RICO Actions. Commencing in 2004, policyholders brought multiple federal antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in a broad conspiracy to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States District Court for the District of New Jersey (District of New Jersey) for coordinated pretrial proceedings. The consolidated actions have proceeded in that court in two parallel actions, In re Insurance Brokerage Antitrust Litigation (the Commercial Complaint) and In re Employee Benefit Insurance Brokerage Antitrust Litigation (the Employee Benefits Complaint, and, together with the Commercial Complaint, the Multi-district Litigation).

The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs' behalf with a number of insurance companies named as defendants, including AIG subsidiaries. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges, among other things, that defendants engaged in a widespread conspiracy to allocate customers through bid-rigging and steering practices. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys' fees as a result of the alleged RICO and Sherman Antitrust Act violations.

The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from August 26, 1994 to the date of any class certification. The Employee Benefits Complaint names AIG, as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, track the allegations made in the Commercial Complaint.

The Court in connection with the Commercial Complaint granted (without leave to amend) defendants' motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The court declined to exercise supplemental jurisdiction over the state law claims in the Commercial Complaint and therefore dismissed it in its entirety. On January 14, 2008, the court granted defendants' motion for summary judgment on the ERISA claims in the Employee Benefits Complaint and subsequently dismissed the remaining state law claims without prejudice, thereby dismissing the Employee Benefits Complaint in its entirety. On February 12, 2008, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit with respect to the dismissal of the Employee Benefits Complaint. Plaintiffs previously appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit on October 10, 2007. Both appeals are pending.

A number of complaints making allegations similar to those in the Multi-district Litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the Multi-district Litigation. These additional consolidated actions are still pending in the District of New Jersey, but are currently stayed pending

7. Commitments, Contingencies and Guarantees *(continued)*

a decision by the court on whether they will proceed during the appeal of the dismissal of the Multi-district Litigation. On August 20, 2008, the District Court, however, granted plaintiff's motion to lift the stay in one tag-along matter and suggested that the case be remanded to the transferor court, and on September 17, 2008, the Judicial Panel on Multidistrict Litigation filed a Conditional Transfer Order with respect to this matter. The AIG defendants have also sought to have state court actions making similar allegations stayed pending resolution of the Multi-district Litigation proceeding. These efforts have generally been successful, although plaintiffs in one case pending in Texas state court have moved to re-open discovery; a hearing on that motion was held on April 9, 2008. The court subsequently issued an order deferring a ruling on the motion until the Court holds a hearing on defendants' Special Exceptions. A hearing date has not yet been set. AIG has recently settled several of the various federal and state actions alleging claims similar to those in the Multi-district Litigation, including a state court action pending in Florida in which discovery had been allowed to proceed.

Ohio Attorney General Action – Ohio Court of Common Pleas. On August 24, 2007, the Ohio Attorney General filed a complaint in the Ohio Court of Common Pleas against AIG and a number of its subsidiaries, as well as several other broker and insurer defendants, asserting violation of Ohio's antitrust laws. The complaint, which is similar to the Commercial Complaint, alleges that AIG and the other broker and insurer defendants conspired to allocate customers, divide markets, and restrain competition in commercial lines of casualty insurance sold through the broker defendant. The complaint seeks treble damages on behalf of Ohio public purchasers of commercial casualty insurance, disgorgement on behalf of both public and private purchasers of commercial casualty insurance, as well as a $500 per day penalty for each day of conspiratorial conduct. AIG, along with other co-defendants, moved to dismiss the complaint on November 16, 2007. On June 30, 2008, the Court denied defendants' motion to dismiss. On August 18, 2008, defendants filed their answers to the complaint. Discovery is ongoing.

Action Relating to Workers Compensation Premium Reporting – Northern District of Illinois. On May 24, 2007, the National Workers Compensation Reinsurance Pool (the NWCRP), on behalf of its participant members, filed a lawsuit in the United States District Court for the Northern District of Illinois against AIG with respect to the underpayment by AIG of its residual market assessments for workers compensation. The complaint alleges claims for violations of RICO, breach of contract, fraud and related state law claims arising out of AIG's alleged underpayment of these assessments between 1970 and the present and seeks damages purportedly in excess of $1 billion. On August 6, 2007, the court denied AIG's motion seeking to dismiss or stay the complaint or, in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the court denied AIG's motion to dismiss the complaint. On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against the National Council on Compensation Insurance (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance companies that are members of the NWCRP alleging violations of RICO, as well as claims for conspiracy, fraud, and other state law claims. The counterclaim-and third-party defendants filed motions to dismiss on June 9, 2008. The motions are scheduled for decision on November 20, 2008. Discovery is currently ongoing while the motions are pending.

Action Relating to Workers Compensation Premium Reporting – Minnesota. On February 16, 2006, the Attorney General of the State of Minnesota filed a complaint against AIG with respect to claims by the Minnesota Department of Revenue and the Minnesota Special Compensation Fund, alleging that AIG made false statements and reports to Minnesota agencies and regulators, unlawfully reducing AIG's contributions and payments to Minnesota and certain state funds relating to its workers' compensation premiums. While AIG settled that litigation in December 2007, a similar lawsuit was filed by the Minnesota Workers Compensation Reinsurance Association and the Minnesota Workers Compensation Insurers Association in the United States District Court for the District of Minnesota. On March 28, 2008, the court granted AIG's motion to dismiss the case in its entirety. On April 25, 2008, plaintiffs appealed to the United States Court of Appeals for the Eighth Circuit and also filed a new complaint making similar allegations in Minnesota state court. On April 30, 2008, substantially identical claims were also filed in Minnesota state court by the Minnesota Insurance Guaranty Association and Minnesota Assigned Risk Plan. On September 11, 2008, the parties to both actions entered into a settlement, resulting in the dismissal of all claims against AIG. In exchange for the dismissal and a broad release of claims, the financial terms of the settlement provided for AIG's payment of $21.5 million to plaintiffs and waiver of its right to collect $3.5 million in payments due from the plaintiffs.

Action Relating to Workers Compensation Premium Reporting – District of South Carolina. A purported class action was also filed in the United States District Court for the District of South Carolina on January 25, 2008 against AIG and certain of its subsidiaries, on behalf of a class of employers that obtained workers' compensation insurance from AIG companies and allegedly paid inflated premiums as a result of AIG's alleged underreporting of workers'

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

7. Commitments, Contingencies and Guarantees *(continued)*

compensation premiums. An amended complaint was filed on March 24, 2008, and AIG filed a motion to dismiss the amended complaint on April 21, 2008. On July 8, 2008, the court granted AIG's motion to dismiss all claims without prejudice and granted plaintiff leave to refile subject to certain conditions. Plaintiffs filed their second amended complaint on July 22, 2008. AIG moved to dismiss the second amended complaint on August 22, 2008. Discovery is stayed pending resolution of the motion to dismiss.

Litigation Relating to SICO and Starr

SICO Action. In July, 2005 SICO filed a complaint against AIG in the Southern District of New York, claiming that AIG had refused to provide SICO access to certain artwork, and asking the court to order AIG immediately to release the property to SICO. AIG filed an answer denying SICO's allegations and setting forth defenses to SICO's claims. In addition, AIG filed counterclaims asserting breach of contract, unjust enrichment, conversion, breach of fiduciary duty, a constructive trust and declaratory judgment, relating to SICO's breach of its commitment to use its AIG shares only for the benefit of AIG and AIG employees. On June 23, 2008, the Court denied in part and granted in part SICO's motion for summary judgment, and on July 31, 2008 the parties submitted a joint pre-trial order. Trial is scheduled to commence on March 2, 2009.

Derivative Action Relating to Starr and SICO. On December 31, 2002, a derivative lawsuit was filed in the Delaware Chancery Court against twenty directors and executives of AIG as well as against AIG as a nominal defendant that alleges, among other things, that the directors of AIG breached the fiduciary duties of loyalty and care by approving the payment of commissions to insurance managing general agencies owned by Starr and of rental and service fees to SICO and the executives breached their duty of loyalty by causing AIG to enter into contracts with Starr and SICO and their fiduciary duties by usurping AIG's corporate opportunities. The complaint further alleges that the Starr agencies did not provide any services that AIG was not capable of providing itself, and that the diversion of commissions to these entities was solely for the benefit of Starr's owners. The complaint also alleges that the service fees and rental payments made to SICO and its subsidiaries were improper. Under the terms of a stipulation approved by the Court on February 16, 2006, the claims against the outside independent directors were dismissed with prejudice, while the claims against the other directors were dismissed without prejudice. In an opinion dated June 21, 2006, the Court denied defendants' motion to dismiss, except with respect to plaintiff's challenge to payments made to Starr before January 1, 2000. On July 21, 2006, plaintiff filed its second amended complaint, which alleges that, between January 1, 2000 and May 31, 2005, individual defendants breached their duty of loyalty by causing AIG to enter into contracts with Starr and SICO and breached their fiduciary duties by usurping AIG's corporate opportunity. Starr is charged with aiding and abetting breaches of fiduciary duty and unjust enrichment for its acceptance of the fees. SICO is no longer named as a defendant. On June 27, 2007, Starr filed a cross-claim against AIG, alleging one count that includes contribution, unjust enrichment and setoff. On November 15, 2007, the Court granted AIG's motion to dismiss the cross-claim by Starr to the extent that it sought affirmative relief from AIG. On February 14, 2008, the Court granted a motion to add former AIG officer Thomas Tizzio as a defendant. As a result, the remaining defendants in the case are AIG (the nominal defendant), Starr and former directors and officers Maurice Greenberg, Howard Smith, Edward Matthews and Thomas Tizzio. On September 30, 2008, the parties filed a stipulation of settlement, and the court scheduled a settlement hearing for December 17, 2008. Pursuant to the settlement, defendants have agreed to payment of $115 million to AIG, net of attorneys' fees and costs, in exchange for receipt of a broad release of claims relating to the allegations in the complaint.

Litigation Matters Relating to AIG's General Insurance Operations

Caremark. AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action have intervened in the first-filed action, and the second-filed action has been dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In addition, the intervenor-plaintiffs allege that various lawyers and law firms who represented parties in the underlying class and derivative litigation (the Lawyer Defendants) are also liable for fraud and suppression, misrepresentation, and breach of fiduciary duty. The complaints filed by the plaintiffs and the intervenor-plaintiffs request compensatory damages for the 1999 class in the amount of $3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression and have asserted that information concerning the excess policy was publicly disclosed months prior to the approval

7. Commitments, Contingencies and Guarantees *(continued)*

of the settlement. AIG and its subsidiaries further assert that the current claims are barred by the statute of limitations and that plaintiffs' assertions that the statute was tolled cannot stand against the public disclosure of the excess coverage. The plaintiffs and intervenor-plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations. On November 26, 2007, the trial court issued an order that dismissed the intervenors' complaint against the Lawyer Defendants and entered a final judgment in favor of the Lawyer Defendants. The matter was stayed pending appeal to the Alabama Supreme Court. In September 2008 the Alabama Supreme Court affirmed the trial court's dismissal of the Lawyer Defendants. It is anticipated that the next steps will be class discovery and a hearing on class certification. AIG cannot reasonably estimate either the likelihood of its prevailing in these actions or the potential damages in the event liability is determined.

(b) Commitments

Flight Equipment

At September 30, 2008, International Lease Finance Corporation (ILFC) had committed to purchase 174 new aircraft deliverable from 2008 through 2019 at an estimated aggregate purchase price of $16.9 billion. ILFC will be required to find customers for any aircraft acquired, and it must arrange financing for portions of the purchase price of such equipment.

ILFC has ordered 74 Boeing 787 aircraft with the first aircraft now scheduled to be delivered in late 2011. Boeing has made several announcements concerning the delays in the deliveries of the 787s. Boeing has informed ILFC that its 787 deliveries will be delayed, on average, an excess of 27 months per aircraft. Such delays will span across ILFC's entire order, with the original contracted deliveries running from 2010 through 2017. ILFC expects further delays on its future Boeing aircraft deliveries resulting from the recent labor strike.

Other Commitments

In the normal course of business, AIG enters into commitments to invest in limited partnerships, private equities, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $8.4 billion at September 30, 2008.

On June 27, 2005, AIG entered into an agreement pursuant to which AIG agreed, subject to certain conditions, to make any payment that is not promptly paid with respect to the benefits accrued by certain employees of AIG and its subsidiaries under the SICO Plans (as discussed below under "Benefits Provided by Starr International Company, Inc. and C.V. Starr & Co., Inc.").

(c) Contingencies

Loss Reserves

Although AIG regularly reviews the adequacy of the established reserve for losses and loss expenses, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's current loss reserves. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, directors and officers liability, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation, in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims.

Deferred Tax Assets

AIG's determination of the realizability of deferred tax assets requires estimates of future taxable income. Such estimates could change in the near term, perhaps materially, which may require AIG to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to AIG's consolidated financial condition or its results of operations. See Note 9 to the Consolidated Financial Statements.

Benefits Provided by Starr International Company, Inc. and C.V. Starr & Co., Inc.

SICO has provided a series of two-year Deferred Compensation Profit Participation Plans (SICO Plans) to certain AIG employees. The SICO Plans were created in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset is AIG common stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and

7. Commitments, Contingencies and Guarantees *(continued)*

succeeding managements of all American International companies, including AIG.

None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting amount credited to additional paid-in capital reflecting amounts considered to be contributed by SICO. The SICO Plans provide that shares currently owned by SICO are set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's voluntary termination of employment with AIG prior to normal retirement age. Under the SICO Plans, SICO's Board of Directors may elect to pay a participant cash in lieu of shares of AIG common stock. Following notification from SICO to participants in the SICO Plans that it will settle specific future awards under the SICO Plans with shares rather than cash, AIG modified its accounting for the SICO Plans from variable to fixed measurement accounting. AIG gave effect to this change in settlement method beginning on December 9, 2005, the date of SICO's notice to participants in the SICO Plans.

(d) Guarantees

AIG and certain of its subsidiaries are parties to derivative financial instruments with market risk resulting from both dealer and end-user activities to reduce currency, interest rate, equity and commodity exposures. These instruments are carried at their fair value in the consolidated balance sheet. The majority of AIG's derivative activity is transacted by AIGFP. See Note 8 to the Consolidated Financial Statements included in the 2007 Annual Report on Form 10-K.

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP arising from transactions entered into by AIGFP.

SAI Deferred Compensation Holdings, Inc., a wholly owned subsidiary of AIG, has established a deferred compensation plan for registered representatives of certain AIG subsidiaries, pursuant to which participants have the opportunity to invest deferred commissions and fees on a notional basis. The value of the deferred compensation fluctuates with the value of the deferred investment alternatives chosen. AIG has provided a full and unconditional guarantee of the obligations of SAI Deferred Compensation Holdings, Inc. to pay the deferred compensation under the plan.

See also Note 11 to the Consolidated Financial Statements for information on the termination of selected AIG voluntary non-qualified deferred compensation plans.

8. Employee Benefits

The components of the net periodic benefit cost with respect to pensions and other postretirement benefits were as follows:

(in millions)	Pensions Non-U.S. Plans	Pensions U.S. Plans	Pensions Total	Postretirement Non-U.S. Plans	Postretirement U.S. Plans	Postretirement Total
Three Months Ended September 30, 2008						
Components of net periodic benefit cost:						
Service cost	**$ 34**	**$ 32**	**$ 66**	**$ 2**	**$ 2**	**$ 4**
Interest cost	**16**	**49**	**65**	**1**	**4**	**5**
Expected return on assets	**(11)**	**(59)**	**(70)**	–	–	–
Amortization of prior service cost	**(3)**	–	**(3)**	–	–	–
Amortization of net loss	**15**	**3**	**18**	–	–	–
Curtailment gain	**(6)**	–	**(6)**	–	–	–
Settlement gain	**(1)**	–	**(1)**	–	–	–
Net periodic benefit cost	**$ 44**	**$ 25**	**$ 69**	**$ 3**	**$ 6**	**$ 9**
Three Months Ended September 30, 2007						
Components of net periodic benefit cost:						
Service cost	$ 22	$ 30	$ 52	$ 1	$ 3	$ 4
Interest cost	12	45	57	1	3	4
Expected return on assets	(9)	(53)	(62)	–	–	–
Amortization of prior service cost	(2)	(1)	(3)	–	–	–
Amortization of net loss	2	9	11	–	–	–
Amortization of initial net obligation	1	–	1	–	–	–
Settlement loss	–	3	3	–	–	–
Net periodic benefit cost	$ 26	$ 33	$ 59	$ 2	$ 6	$ 8
Nine Months Ended September 30, 2008						
Components of net periodic benefit cost:						
Service cost	**$ 84**	**$ 96**	**$ 180**	**$ 6**	**$ 6**	**$ 12**
Interest cost	**44**	**149**	**193**	**3**	**12**	**15**
Expected return on assets	**(34)**	**(178)**	**(212)**	–	–	–
Amortization of prior service cost	**(8)**	**(1)**	**(9)**	–	–	–
Amortization of net loss	**22**	**12**	**34**	–	–	–
Curtailment gain	**(6)**	–	**(6)**	–	–	–
Settlement loss	**1**	–	**1**	–	–	–
Net periodic benefit cost	**$ 103**	**$ 78**	**$ 181**	**$ 9**	**$ 18**	**$ 27**
Nine Months Ended September 30, 2007						
Components of net periodic benefit cost:						
Service cost	$ 66	$ 90	$ 156	$ 4	$ 8	$ 12
Interest cost	36	134	170	2	11	13
Expected return on assets	(27)	(160)	(187)	–	–	–
Amortization of prior service cost	(7)	(2)	(9)	–	(1)	(1)
Amortization of net loss	7	27	34	–	–	–
Amortization of initial net obligation	1	–	1	–	–	–
Settlement loss	1	3	4	–	–	–
Net periodic benefit cost	$ 77	$ 92	$ 169	$ 6	$ 18	$ 24

Expected Cash Flows

As disclosed in its 2007 Annual Report on Form 10-K, AIG expected to contribute $118 million to its U.S. and non-U.S. pension plans in 2008. For the nine months ended September 30, 2008, AIG had contributed $122 million to its U.S. and non-U.S. pension plans. Based upon the current funded status of the plans, the current interest rate environment, and the

projected performance of pension plan assets, additional expected contributions for the U.S. and non-U.S. pension plans in the 2008 fourth quarter range from approximately $168 million to $532 million. Actual contributions will depend on asset performance, foreign exchange rates, and the interest rate environment as of December 31, 2008. Actual contributions may also vary as a result of anticipated business dispositions.

9. Federal Income Taxes

Interim Period Tax Assumptions and Effective Tax Rates

AIG's interim period tax expense or benefit is measured using an estimated annual effective tax rate. To the extent that a portion of AIG's annual pretax income or loss cannot be reliably estimated, the actual tax expense or benefit applicable to that income or loss is reported in the interim period in which the related income or loss is reported. AIG is unable to reliably estimate impairments of goodwill, other-than-temporary impairments, realized capital gains and losses, and the operating results of AIGFP. Therefore, the tax effects of these items, to the extent deductible, are calculated at the applicable local statutory rate (predominantly 35 percent) and are reported as discrete adjustments to the estimated annual effective tax rate that AIG applies to all other pretax income.

The effective tax rate on the pre-tax loss for the three-month period ended September 30, 2008 was 12.3 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to $6.9 billion of deferred tax expense recorded during the third quarter, comprising $3.6 billion of deferred tax expense attributable to the potential sale of foreign businesses, and a $3.3 billion valuation allowance to reduce tax benefits on capital losses to the amount that AIG believes is more likely than not to be realized.

The effective tax rate on the pre-tax loss for the nine-month period ended September 30, 2008 was 21.5 percent and was also lower than the statutory rate primarily due to the $6.9 billion of deferred tax expense, which is discussed above, as well as other tax charges previously recorded.

The effective tax rates on pre-tax income for the three- and nine-month periods ended September 30, 2007 were 30.0 percent and 28.0 percent, respectively. These effective tax rates were lower than the statutory rate due primarily to benefits from remediation adjustments and the recognition of tax benefits associated with the SICO Plan for which the compensation expense was recognized in prior years.

Valuation Allowances

In general, realization of deferred tax assets depends on a company's ability to generate sufficient taxable income of the appropriate character within the carryforward periods of the jurisdictions in which the net operating losses and deductible temporary differences were incurred. AIG assessed its ability to realize the deferred tax asset of $19.1 billion and concluded a $3.3 billion valuation allowance was required to reduce the deferred tax asset to an amount AIG believes is more likely than not to be realized.

When making its assessment, AIG considered all available evidence, including future reversals of existing taxable temporary differences, estimated future GAAP taxable income, and tax-planning strategies AIG would implement, if necessary, to realize the net deferred tax asset.

In assessing future GAAP taxable income, AIG considered its strong earnings history exclusive of the recent losses on the super senior credit default swap portfolio and from the securities lending program, because AIG expects to enter into transactions with the NY Fed to limit exposure to future losses. AIG also considered taxable income from the sales of businesses under its asset disposition plan, the continuing earnings strength of the insurance businesses it intends to retain and its recently announced debt and preferred stock transactions with the NY Fed and United States Treasury, respectively, together with other actions AIG is taking, when assessing the ability to generate sufficient future taxable income during the relevant carryforward periods to realize the deferred tax asset. See Note 11 to the Consolidated Financial Statements.

In evaluating the realizability of the loss carryforwards, AIG considered the relief provided by IRS Notice 2008-84 which provides that the limitation on loss carryforwards that can arise as a result of one or more acquisitions of stock of a loss company will not apply to such stock acquisitions for any period during which the United States becomes a direct or indirect owner of a more than 50 percent interest in the loss company.

At September 30, 2008, AIG has recorded deferred tax assets related to stock compensation of $200 million. Due to the significant decline in AIG's stock price, these deferred tax assets may not be realizable in the future. FAS 123(R) precludes AIG from recognizing an impairment charge on these assets until the related stock awards are either exercised, vested or expired. Any charge associated with the deferred tax asset would be reflected in additional paid-in capital rather than income tax expense.

Undistributed Earnings

During the three months ended September 30, 2008, AIG recorded $3.6 billion of deferred tax expense attributable to foreign businesses. This deferred tax, primarily related to GAAP and tax differences such as DAC, has not been previously recorded because the earnings from certain

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

9. Federal Income Taxes *(continued)*

non-U.S. subsidiaries had been reinvested abroad indefinitely. At September 30, 2008, AIG continues to maintain permanent reinvestment assertions with respect to foreign general insurance and related companies. Approximately $7 billion of GAAP earnings related to such foreign general insurance and related companies has not been subject to U.S. tax under Accounting Principles Board Opinion No. 23, “Accounting for Income Taxes — Special Areas”.

Tax Filings and Examinations

On March 20, 2008, AIG received a Statutory Notice of Deficiency from the IRS for years 1997 to 1999. The Notice asserted that AIG owes additional taxes for these years primarily due to the disallowance of foreign tax credits. AIG has paid the assessed tax plus interest and penalties for 1997 and has filed a claim for refund. AIG has also paid the additional taxes, interest, and penalties assessed for 1998 and 1999. AIG will vigorously defend its position, and continues to believe that it has adequate reserves for any liability that could result from the IRS actions.

During the third quarter, the IRS announced a settlement initiative with respect to certain taxpayers that participated in targeted leasing transactions. On October 6, 2008, AIG notified the IRS of its decision to participate in the settlement offer. In accordance with FIN 48 and FSP 13-2, AIG anticipates recording an after-tax charge of approximately $34 million to $100 million for this matter in the fourth quarter of 2008.

FIN 48

As of September 30, 2008 and December 31, 2007, AIG’s unrecognized tax benefits, excluding interest and penalties, were $2.4 billion and $1.3 billion, respectively. As of September 30, 2008 and December 31, 2007, AIG’s unrecognized tax benefits included $689 million and $299 million, respectively, related to tax positions the disallowance of which would not affect the effective tax rate. Accordingly, as of September 30, 2008 and December 31, 2007, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $1.7 billion and $1.0 billion, respectively. Substantially all of the increase as of September 30, 2008 was attributable to the quarter ended March 31, 2008.

At September 30, 2008, AIG had accrued $420 million for the payment of interest (net of the federal benefit) and penalties.

AIG continually evaluates proposed adjustments by taxing authorities. At September 30, 2008, such proposed adjustments would not result in a material change to AIG’s consolidated financial condition, although it is possible that the effect could be material to AIG’s consolidated results of operations for an individual reporting period. Although it is reasonably possible that a significant change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

10. Information Provided in Connection with Outstanding Debt

The following condensed consolidating financial statements reflect the results of AIG Life Holdings (US), Inc. (AIGLH), formerly known as American General Corporation, a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

In addition, AIG Liquidity Corp. and AIG Program Funding, Inc. are both wholly owned subsidiaries of AIG. AIG provides a full and unconditional guarantee of all obligations of AIG Liquidity Corp. and AIG Program Funding, Inc. There are no reportable amounts for these entities.

Condensed Consolidating Balance Sheet

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Eliminations	Consolidated AIG
September 30, 2008					
Assets:					
Investments and Financial Services assets	**$ 11,394**	**$ 40**	**$ 869,197**	**$ (117,148)**	**$ 763,483**
Loans to subsidiaries	**61,470**	**–**	**(61,470)**	**–**	**–**
Cash	**1,260**	**–**	**17,310**	**–**	**18,570**
Carrying value of subsidiaries and partially owned companies, at equity	**83,608**	**27,740**	**35,616**	**(146,373)**	**591**
Other assets	**43,812**	**2,629**	**191,936**	**1,216**	**239,593**
Total assets	**$ 201,544**	**$ 30,409**	**$ 1,052,589**	**$ (262,305)**	**$ 1,022,237**
Liabilities:					
Insurance liabilities	**$ –**	**$ –**	**$ 547,857**	**$ (108)**	**$ 547,749**
Federal Reserve Bank of New York credit facility	**62,960**	**–**	**–**	**–**	**62,960**
Other long-term borrowings	**48,285**	**2,136**	**227,226**	**(116,057)**	**161,590**
Other liabilities	**19,117**	**3,040**	**155,888**	**611**	**178,656**
Total liabilities	**130,362**	**5,176**	**930,971**	**(115,554)**	**950,955**
Preferred shareholders' equity in subsidiary companies	**–**	**–**	**100**	**–**	**100**
Total shareholders' equity	**71,182**	**25,233**	**121,518**	**(146,751)**	**71,182**
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	**$ 201,544**	**$ 30,409**	**$ 1,052,589**	**$ (262,305)**	**$ 1,022,237**
December 31, 2007					
Assets:					
Investments and Financial Services assets	$ 13,378	$ 40	$ 850,414	$ (21,790)	$ 842,042
Cash	84	1	2,199	–	2,284
Carrying value of subsidiaries and partially owned companies, at equity	111,714	24,396	18,542	(153,998)	654
Other assets	10,684	2,592	189,950	155	203,381
Total assets	$ 135,860	$ 27,029	$ 1,061,105	$ (175,633)	$ 1,048,361
Liabilities:					
Insurance liabilities	$ 43	$ –	$ 528,059	$ (75)	$ 528,027
Long-term borrowings	36,045	2,136	156,003	(18,135)	176,049
Other liabilities	3,971	2,826	244,672	(3,085)	248,384
Total liabilities	40,059	4,962	928,734	(21,295)	952,460
Preferred shareholders' equity in subsidiary companies	–	–	100	–	100
Total shareholders' equity	95,801	22,067	132,271	(154,338)	95,801
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	$ 135,860	$ 27,029	$ 1,061,105	$ (175,633)	$ 1,048,361

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

10. Information Provided in Connection with Outstanding Debt *(continued)*

Condensed Consolidating Statement of Income (Loss)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Eliminations	Consolidated AIG
Three Months Ended September 30, 2008					
Operating income (loss)	**$ (3,250)**	**$ (24)**	**$(24,911)**	**$ –**	**$(28,185)**
Equity in undistributed net income of consolidated subsidiaries	**(17,803)**	**(7,858)**	**–**	**25,661**	**–**
Dividend income from consolidated subsidiaries	**881**	**75**	**–**	**(956)**	**–**
Income taxes (benefits)	**4,296***	**(1)**	**(7,775)**	**–**	**(3,480)**
Minority interest	**–**	**–**	**237**	**–**	**237**
Net income (loss)	**$(24,468)**	**$ (7,806)**	**$(16,899)**	**$ 24,705**	**$(24,468)**
Three Months Ended September 30, 2007					
Operating income (loss)	$ (587)	$ (37)	$ 5,503	$ –	$ 4,879
Equity in undistributed net income of consolidated subsidiaries	2,343	55	–	(2,398)	–
Dividend income from consolidated subsidiaries	1,109	320	–	(1,429)	–
Income taxes (benefits)	(220)	256	1,427	–	1,463
Minority interest	–	–	(331)	–	(331)
Net income (loss)	$ 3,085	$ 82	$ 3,745	$ (3,827)	$ 3,085
Nine Months Ended September 30, 2008					
Operating income (loss)	**$ (4,135)**	**$ (65)**	**$(44,005)**	**$ –**	**$(48,205)**
Equity in undistributed net income of consolidated subsidiaries	**(31,721)**	**(10,833)**	**–**	**42,554**	**–**
Dividend income from consolidated subsidiaries	**2,354**	**75**	**–**	**(2,429)**	**–**
Income taxes (benefits)	**4,128***	**(8)**	**(14,494)**	**–**	**(10,374)**
Minority interest	**–**	**–**	**201**	**–**	**201**
Net income (loss)	**$(37,630)**	**$(10,815)**	**$(29,310)**	**$ 40,125**	**$(37,630)**
Nine Months Ended September 30, 2007					
Operating income (loss)	$ (1,130)	$ (123)	$ 18,632	$ –	$ 17,379
Equity in undistributed net income of consolidated subsidiaries	9,192	546	–	(9,738)	–
Dividend income from consolidated subsidiaries	3,274	978	–	(4,252)	–
Income taxes (benefits)	(156)	249	4,775	–	4,868
Minority interest	–	–	(1,019)	–	(1,019)
Net income (loss)	$ 11,492	$ 1,152	$ 12,838	$(13,990)	$ 11,492

* *Income taxes recorded by the Parent company include deferred tax expense attributable to the potential sale of foreign businesses and a valuation allowance on capital losses. See Note 9 to the Consolidated Financial Statements for additional information.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

10. Information Provided in Connection with Outstanding Debt *(continued)*

Condensed Consolidating Statement of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Consolidated AIG
Nine Months Ended September 30, 2008				
Net cash provided by (used in) operating activities	**$ (238)**	**$ 179**	**$ 2,241**	**$ 2,182**
Cash flows from investing:				
Invested assets disposed	**1,014**	**–**	**118,971**	**119,985**
Invested assets acquired	**(3,925)**	**–**	**(136,156)**	**(140,081)**
Loans to subsidiaries	**(75,290)**	**–**	**75,290**	**–**
Other	**465**	**(180)**	**12,351**	**12,636**
Net cash provided by (used in) investing activities	**(77,736)**	**(180)**	**70,456**	**(7,460)**
Cash flows from financing activities:				
Federal Reserve Bank of New York credit facility borrowings	**61,000**		**–**	**61,000**
Issuance of long-term borrowings	**21,586**		**89,972**	**111,558**
Repayments of long-term borrowings	**(4,771)**		**(109,280)**	**(114,051)**
Proceeds from common stock issued	**7,343**		**–**	**7,343**
Payments advanced to purchase shares	**(1,000)**		**–**	**(1,000)**
Cash dividends paid to shareholders	**(1,629)**		**–**	**(1,629)**
Other	**(3,379)**	**–**	**(38,283)**	**(41,662)**
Net cash provided by (used in) financing activities	**79,150**	**–**	**(57,591)**	**21,559**
Effect of exchange rate changes on cash	**–**		**5**	**5**
Change in cash	**1,176**	**(1)**	**15,111**	**16,286**
Cash at beginning of period	**84**	**1**	**2,199**	**2,284**
Cash at end of period	**$ 1,260**	**$ –**	**$ 17,310**	**$ 18,570**
Nine Months Ended September 30, 2007				
Net cash provided by (used in) operating activities	$ (95)	$ 375	$ 27,269	$ 27,549
Cash flows from investing:				
Invested assets disposed	2,129	–	124,600	126,729
Invested assets acquired	(8,634)	–	(152,187)	(160,821)
Other	(1,199)	(220)	(30,351)	(31,770)
Net cash provided by (used in) investing activities	(7,704)	(220)	(57,938)	(65,862)
Cash flows from financing activities:				
Issuance of long-term borrowings	13,540	–	58,499	72,039
Repayments of long-term borrowings	(1,143)	–	(48,500)	(49,643)
Payments advanced to purchase shares	(5,000)	–	–	(5,000)
Cash dividends paid to shareholders	(1,372)	–	–	(1,372)
Other	1,723	(154)	21,371	22,940
Net cash provided by (used in) financing activities	7,748	(154)	31,370	38,964
Effect of exchange rate changes on cash			8	8
Change in cash	(51)	1	709	659
Cash at beginning of period	76	–	1,514	1,590
Cash at end of period	$ 25	$ 1	$ 2,223	$ 2,249

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

10. Information Provided in Connection with Outstanding Debt *(continued)*

Supplementary disclosure of cash flow information:

(in millions)	Nine Months Ended September 30, 2008	2007
Intercompany non-cash financing activities:		
Settlement of repurchase agreement with loan receivable	**$ 3,160**	–
Intercompany non-cash investing activities:		
Capital contributions to subsidiaries through forgiveness of loans	**$ 14,510**	–

During the second quarter of 2008, AIG made certain revisions to the American International Group, Inc. (as Guarantor) Condensed Statement of Cash Flows, primarily relating to the effect of reclassifying certain intercompany and securities lending balances. Accordingly, AIG revised the previous period presented to conform to the revised presentation. There was no effect on the Consolidated Statement of Cash Flows or ending cash balances.

The revisions and their effect on the American International Group, Inc. (as Guarantor) Condensed Statement of Cash Flows for the nine months ended September 30, 2007 were as follows:

(in millions)	Originally Reported September 30, 2007	Revisions	As Revised
Cash flows provided by (used in) operating activities	$ 1,627	$(1,722)	$ (95)
Cash flows provided by (used in) investing activities	(7,799)	95	(7,704)
Cash flows provided by (used in) financing activities	6,121	1,627	7,748

11. Subsequent Events

Utilization of the Fed Facility

Borrowings outstanding and remaining available amount that can be borrowed under the Fed Facility were as follows:

(in millions)	Inception Through September 30, 2008	Inception Through November 5, 2008
Borrowings:		
Loans to AIGFP for collateral postings, GIA and other maturities	**$35,340**	**$43,100**
Capital contributions to insurance companies *(a)*	**13,341**	**13,687**
Repayment of obligations to securities lending program	**3,160**	**3,160**
AIG Funding commercial paper maturities	**2,717**	**3,714**
Repayment of intercompany loans	**1,528**	**1,528**
Contributions to AIGCFG subsidiaries	**1,094**	**1,591**
Debt repayments	**1,038**	**1,578**
Other borrowings *(a)*	**2,782**	**8,642**
Total borrowings	**61,000**	**77,000**
Repayments:		
Repayments not reducing available amounts	**–**	**16,000** *(b)*
Repayments reducing available amounts	**–**	**–**
Total repayments	**–**	**16,000**
Net borrowings	**61,000**	**61,000**
Total Fed Facility	**85,000**	**85,000**
Remaining available amount	**24,000**	**24,000**
Net borrowings	**61,000**	**61,000**
Paid in kind interest and fees	**1,960**	**1,960**
Total balance outstanding	**$62,960**	**$62,960**

(a) Includes securities lending activities.
(b) Includes repayments due to funds received from the Fed Securities Lending Agreement and the CPFF.

11. Subsequent Events *(continued)*

Preferred Equity Investment by the United States Treasury Pursuant to TARP

On November 9, 2008, AIG and the United States Treasury agreed in principle to a transaction pursuant to which the United States Treasury will purchase from AIG $40 billion liquidation preference of newly issued perpetual preferred stock (Series D Preferred Shares) under the United States Treasury's Troubled Asset Relief Program (TARP). The Series D Preferred Shares will be in addition to the Series C Preferred Stock related to the Fed Credit Agreement. AIG is required to use the net proceeds from the sale of the Series D Preferred Shares to repay a portion of the outstanding balance under the Fed Facility.

The Series D Preferred Shares will rank *pari passu* with the Series C Preferred Stock and senior to AIG's common stock. The Series D Preferred Shares will have limited class voting rights and will accumulate cumulative compounding dividends at a rate equal to 10 percent per annum. The dividends will be payable when, as and if declared by AIG's Board of Directors. AIG will not be able to declare or pay any dividends on AIG's common stock or on any AIG preferred stock ranking *pari passu* with or junior to the Series D Preferred Shares until dividends on the Series D Preferred Shares have been paid. AIG may redeem the Series D Preferred Shares at the stated liquidation preference, plus accumulated but unpaid dividends, at any time that the Trust or a successor entity beneficially owns less than 30 percent of AIG's voting securities and no holder of the Series D Preferred Shares controls or has the potential to control AIG.

Pursuant to the agreement between AIG and the United States Treasury in connection with the Series D Preferred Shares, for as long as the United States Treasury owns any of the Series D Preferred Shares, AIG will be subject to restrictions on its ability to repurchase capital stock, and will be required to adopt and maintain policies limiting corporate expenses, lobbying activities and executive compensation.

In connection with the issuance of the Series D Preferred Shares, AIG will also issue a 10-year warrant to the United States Treasury exercisable for a number of shares of common stock of AIG equal to two percent of the issued and outstanding shares of common stock on the date of the issuance (in connection with the issuance of the warrant, the voting, dividend and conversion rights of the Series C Preferred Stock will be reduced from 79.9 percent to 77.9 percent.) The warrant will be exercisable at any time and will have an exercise price equal to the par value of AIG's common stock at the time of exercise. The United States Treasury has agreed that it will not exercise any voting rights with respect to the common stock issued upon exercise of the warrant. The warrant will not be subject to contractual transfer restrictions other than restrictions necessary to comply with U.S. federal and state securities laws. AIG will be obligated, at the request of the United States Treasury, to file a registration statement with respect to the warrant and the common stock for which the warrant can be exercised. During the 10-year term of the warrant, if the shares of common stock of AIG are no longer listed or trading on a national securities exchange, AIG may be obligated, at the direction of the United States Treasury, to exchange all or a portion of the warrant for another economic interest of AIG classified as permanent equity under U.S. GAAP with an equivalent fair value. If the Series D Preferred Shares issued in connection with the warrant are redeemed in whole or transferred to third parties, AIG may repurchase the warrant then held by the United States Treasury at any time for its fair market value so long as no holder of the warrant controls or has the potential to control AIG. As a result of the issuance of the warrant, the number of shares into which the Series C Preferred Stock will be convertible will be reduced to 77.9 percent of the outstanding shares of common stock.

Amending the Fed Credit Agreement

On November 9, 2008, AIG and the NY Fed agreed, subject to the issuance of the Series D Preferred Shares, to amend the Fed Credit Agreement to, among other things, (i) provide that the total commitment under the Fed Facility following the issuance of the Series D Preferred Shares shall be $60 billion; (ii) reduce the interest rate payable on outstanding borrowings under the Fed Facility from three-month LIBOR (not less than 3.5 percent) plus 8.5 percent per annum to three-month LIBOR (not less than 3.5 percent) plus 3.0 percent per annum; (iii) reduce the fee payable on undrawn amounts from 8.5 percent per annum to 0.75 percent per annum; and (iv) extend the term of the Fed Facility from two years to five years.

Securities Lending Agreement with the Federal Reserve Bank of New York

On October 8, 2008, certain of AIG's life insurance and retirement services subsidiaries entered into a securities lending agreement with the NY Fed, providing that the NY Fed will borrow, on an overnight basis on commercial terms and conditions, investment grade fixed maturity securities from these AIG subsidiaries in return for cash collateral. Prior to this arrangement, draw downs under the existing Fed Facility were used, in part, to settle securities lending transactions. The NY Fed has been borrowing securities pursuant to the securities lending agreement, which has allowed AIG to replenish liquidity in the securities lending program on an as-needed basis, while providing possession and control of these third-party securities to the NY Fed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

As of November 5, 2008, the total value of securities lending payables amounted to $34.2 billion, with $19.9 billion of this amount payable to the NY Fed under this agreement.

AIG's U.S. securities lending program is scheduled to be terminated in the fourth quarter of 2008 as further described below.

Transfer of RMBS by Certain AIG Insurance Subsidiaries

AIG and the NY Fed expect to establish a facility under which approximately $40 billion principal amount of residential mortgage-backed securities (RMBS) related to AIG's U.S. securities lending program will be transferred by certain AIG insurance subsidiaries to a newly-formed limited liability company (the RMBS LLC) that will be financed by the NY Fed and AIG. Proceeds to the insurance company subsidiaries, together with other AIG funds, will be used to return all cash collateral posted by securities borrowers, including approximately $19.9 billion to be returned to the NY Fed. After all collateral is returned, AIG's U.S. securities lending program will be terminated.

The aggregate proceeds to the AIG insurance company subsidiaries will be equal to the estimated fair value of the RMBS at October 31, 2008, adjusted for collections and certain other events between such date and the closing date of the purchase, which is expected to be prior to November 30, 2008. At September 30, 2008, the fair value of the RMBS being transferred was $23.5 billion. AIG will provide $1 billion of proceeds to the AIG entities and the NY Fed will provide the remainder of the proceeds up to $22.5 billion.

Interest on both the NY Fed's senior loan and AIG's subordinated loan will be capitalized (converted to principal of the related loan instead of being paid in cash). Payments of interest on, and principal of, the RMBS and the net sale proceeds, if any, on the RMBS received by the RMBS LLC will be used to pay principal of the NY Fed's senior loan in full before any payments are made on AIG's subordinated loan. None of the obligations of RMBS LLC have recourse to AIG, although AIG's subordinated loan will be exposed to losses of the RMBS LLC up to $1 billion plus the amount of capitalized interest thereon. After the loans have returned amounts equal to their principal and capitalized interest, payments with respect to the remaining RMBS received by the RMBS LLC will be allocated as contingent interest on both of the loans. There are no economic interests in the RMBS LLC other than the NY Fed's senior loan and AIG's subordinated loan.

The implementation of RMBS LLC is subject to approval of the relevant state insurance commissioners.

Terminations of Multi-Sector Credit Default Swap Transactions and Sale of Underlying CDOs

AIGFP has currently outstanding multi-sector credit default swaps with third-party counterparties related to CDOs. Such credit default swaps require that AIGFP post collateral with the counterparties to secure its obligations based on fair value deterioration, ratings downgrades of referenced obligations and downgrades of AIG's ratings. As of November 5, 2008, AIGFP had either agreed to post or posted collateral based on exposures calculated in respect of multi-sector credit default swaps in an aggregate net amount of $37.3 billion.

AIG and the NY Fed expect to establish a facility in which a newly-formed limited liability company (the CDO LLC) will offer to purchase CDOs from the counterparties, who will concurrently with such purchase terminate the related credit default swaps. AIGFP and the NY Fed have begun negotiating the terminations; depending on the level of counterparty participation, on the closing date, the NY Fed will advance up to $30 billion (the Tranche A Loan) and AIG will advance $5 billion (the Tranche B Loan) to the CDO LLC to fund the purchase price of such CDOs. Separately, AIG will pay the costs associated with the unwind of the related CDSs, and so will bear the risk of declines in the market value of the CDOs through October 31, 2008. After the closing date, AIGFP will not be subject to any further collateral calls related to the terminated credit default swaps.

Interest on both the Tranche A Loan and the Tranche B Loan will be capitalized. Payments of interest on, and principal of, the CDOs received by the CDO LLC will be used to pay principal and interest of the Tranche A Loan in full before any payments may be made on the Tranche B Loan. None of the obligations of the CDO LLC have recourse to AIG, although AIG's Tranche B Loan will be exposed to losses of the CDO LLC up to its principal amount plus the amount of capitalized interest thereon. After the loans have returned amounts equal to their principal and capitalized interest, payments with respect to the remaining CDOs received by the CDO LLC will be allocated as contingent interest on both of the loans. There are no economic interests in the CDO LLC other than the Tranche A Loan and Tranche B Loan.

Because the successful implementation of the proposed establishment of CDO LLC depends on the agreement of counterparties to terminate their super senior credit default swaps, no assurance can be given that this facility will be completed or, if completed, on the level of participation.

Commercial Paper Funding Facility

On October 27, 2008, four AIG affiliates applied for participation in the NY Fed's Commercial Paper Funding Facility (CPFF). AIG Funding, Inc., ILFC, Curzon Funding LLC and Nightingale Finance LLC may issue up to approximately

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

$6.9 billion, $5.7 billion, $7.2 billion and $1.1 billion, respectively, of commercial paper under the CPFF. As of November 5, 2008, these entities had borrowed a total of approximately $15.2 billion under this facility, which allowed AIG to repay borrowings under the Fed Facility.

These AIG affiliates are participating in the CPFF on the same terms and conditions as other non-AIG companies.

Proceeds from the issuance of the commercial paper will be used to refinance AIG's outstanding commercial paper as it matures, meet other working capital needs and make voluntary prepayments under the Fed Facility. The voluntary repayments of the Fed Facility will not reduce the amount available to be borrowed thereunder.

Asset Disposition Plan

AIG has recently hired a Vice Chairman and Chief Restructuring Officer to oversee the asset disposition plan to sell assets and businesses to repay the Fed Facility.

AIG intends to retain the majority of its U.S. property and casualty and foreign general insurance businesses, and to retain an ownership interest in certain of its foreign life insurance operations. AIG is exploring divestiture opportunities for its remaining businesses. Proceeds from these sales are contractually required to be applied toward the repayment of the Fed Facility. None of the businesses under consideration for sale at September 30, 2008 met the criteria in FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" to qualify as "held for sale." Management continues to evaluate the status of its asset sales with respect to these criteria.

In connection with AIG's asset disposition plan, subsequent to September 30, 2008, AIG entered into negotiations to sell certain operations in its General Insurance, Life Insurance and Retirement Services, Financial Services and Asset Management operating segments. These operations had total assets and liabilities with carrying values of approximately $9 billion and $6 billion, respectively, at September 30, 2008. AIG expects to enter into purchase agreements with respect to these assets during the fourth quarter of 2008.

Dispositions of certain businesses may be subject to regulatory approval.

Termination of Voluntary Deferred Compensation Plans

In October 2008, the Compensation and Management Resources Committee of the Board of Directors approved the termination of 14 voluntary deferred compensation plans. In accordance with the provisions of Section 409A of the Code, these plans will terminate and approximately $503 million in deferred compensation, which had been previously accrued, will be paid out to employees, agents and registered representatives during the first quarter of 2009.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide the reader a narrative with respect to AIG's operations, financial condition and liquidity and certain other significant matters.

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Cautionary Statement Regarding Projections and Other Information About Future Events

This Quarterly Report on Form 10-Q and other publicly available documents may include, and AIG's officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to the establishment of special purpose vehicles with the NY Fed, asset dispositions, liquidity, collateral posting requirements, management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are not historical facts but instead represent only AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control. These projections and statements may address, among other things, the number, size, terms and timing of dispositions and their potential effect on AIG's businesses, financial condition, results of operations, cash flows and liquidity (and AIG at any time and from time to time may change its plans with respect to the sale of one or more businesses), the effect on AIG's liquidity of the establishment of two special purpose vehicles with the NY Fed, AIG's exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets and AIG's strategy for growth, product development, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements. Factors that could cause AIG's actual results to differ, possibly materially, from those in the specific projections and statements are discussed in Risk Factors, and throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and in Item 1A. Risk Factors of this Quarterly Report on Form 10-Q and Item 1A. Risk Factors of AIG's Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Annual Report on Form 10-K). AIG is not under any obligation (and expressly disclaims any such obligations) to update or alter any projection or other statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

In addition to reviewing AIG's results for the three and nine months ended September 30, 2008, this MD&A supplements and updates the information and discussion included in the 2007 Annual Report on Form 10-K to reflect developments in or affecting AIG's business to date during 2008. Throughout this MD&A, AIG presents its operations in the way it believes will be most meaningful. Statutory loss ratios and combined ratios are presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance filed with insurance regulatory authorities and used for analysis in the insurance industry and thus allow more meaningful comparisons with AIG's insurance competitors. AIG also uses cross-references to additional information included in this Quarterly Report on Form 10-Q and in the 2007 Annual Report on Form 10-K to assist readers seeking related information on a particular subject.

Consideration of AIG's Ability to Continue as a Going Concern

In connection with the preparation of its third quarter Form 10-Q, management has assessed whether AIG has the ability to continue as a going concern. In making this assessment, AIG has considered:

- The liquidity events leading up to September 22, 2008;
- AIG's liquidity-related actions and plans to stabilize its businesses and repay the facility (Fed Facility) created pursuant to the $85 billion credit agreement, dated September 22, 2008 (Fed Credit Agreement), between AIG and the Federal Reserve Bank of New York (NY Fed);
- The negative effects of the liquidity events on AIG's businesses and AIG's efforts to address such effects; and
- The substantial risks to which AIG is subject.

Each of these items is discussed in more detail below.

In considering these items, management has made significant judgments and estimates with respect to the potentially adverse financial and liquidity effects of AIG's risks and uncertainties. Management has also assessed other items and risks arising in AIG's businesses and made reasonable judgments and estimates with respect thereto. After consideration, management believes that it will have adequate liquidity to finance and operate AIG's businesses and continue as a going concern for at least the next twelve months.

It is possible that the actual outcome of one or more of management's plans could be materially different or that one or more of management's significant judgments or estimates about the potential effects of the risks and uncertainties could be prove to be materially incorrect or that the principal transactions disclosed in Note 11 to the Consolidated Financial Statements (and as discussed below) do not result in completed transactions. If one or more of these possible outcomes were realized, AIG may not have sufficient cash to meet its obligations. If AIG needs funds in excess of amounts available from the sources described below, AIG would need to find additional financing and, if such additional financing were to be unavailable, there could be substantial doubt about AIG's ability to continue as a going concern.

Liquidity Events Leading Up to September 22, 2008

Liquidity Entering the Third Quarter

AIG parent entered the third quarter of 2008 with $17.6 billion of cash and cash equivalents, including the remaining proceeds from the issuance of $20 billion of common stock, equity units, and junior subordinated debt securities in May 2008. In addition, AIG's securities lending collateral pool held $10.4 billion of cash and other short-term investments. On August 18, 2008, AIG raised $3.25 billion through the issuance of 8.25% Notes Due 2018.

Strategic Review and Proposed Liquidity Measures

From mid-July and throughout August 2008, AIG's then Chief Executive Officer, Robert Willumstad, was engaged in a review of AIG's businesses. Mr. Willumstad had announced that he would hold an investor meeting on September 25, 2008 to present the results of his review.

During this same time period, AIG was engaged in a review of measures to address the liquidity concerns in AIG's securities lending portfolio discussed in previous SEC filings and to address the ongoing collateral calls with respect to AIGFP's super senior multi-sector credit default swap portfolio. To facilitate this process, AIG asked a number of investment banking firms to discuss possible solutions to these issues. In late August, AIG engaged J.P. Morgan Securities, Inc. (J.P. Morgan) to assist in developing alternatives, including a potential additional capital raise.

Continuing Liquidity Pressures

Under AIG's securities lending program, cash collateral is received from borrowers and invested by AIG primarily in fixed maturity securities to earn a spread. Historically, AIG had received cash collateral from borrowers of 100-102 percent of the value of the loaned securities. In light of more favorable terms offered by other lenders of securities, AIG accepted cash advanced by borrowers of less than the 102 percent historically required by insurance regulators. Under an agreement with its insurance company subsidiaries participating in the securities lending program, AIG parent deposited collateral in an amount sufficient to address the deficit. AIG parent also deposited amounts into the collateral pool to offset losses realized by the pool in connection with sales of impaired securities. Aggregate deposits by AIG parent to or for the benefit of the securities lending collateral pool through August 31, 2008 totaled $3.3 billion.

In addition, from July 1, 2008 to August 31, 2008, the continuing decline in value of the super senior collateralized debt obligations (CDO) securities protected by AIGFP's super senior credit default swap portfolio, together with ratings downgrades of such CDO securities, resulted in AIGFP posting or agreeing to post collateral in an aggregate net amount of $6.0 billion.

By the beginning of September 2008, these collateral postings and securities lending requirements were placing increasing stress on AIG parent's liquidity.

Rating Agencies

In early September 2008, AIG met with the representatives of the principal rating agencies to discuss Mr. Willumstad's

strategic review as well as the liquidity issues arising from AIG's securities lending program and AIGFP's super senior multi-sector CDO credit default swap portfolio. On Friday, September 12, 2008, S&P placed AIG on CreditWatch with negative implications and noted that upon completion of its review, the agency could affirm AIG parent's current rating of "AA-" or lower the rating by one to three notches. AIG understood that both S&P and Moody's would re-evaluate AIG's ratings early in the week of September 15, 2008. Also on Friday, September 12, 2008, AIG's subsidiaries ILFC and AGF were unable to replace all of their maturing commercial paper with new issuances of commercial paper. As a result, AIG advanced loans to these subsidiaries to meet their commercial paper obligations.

The Accelerated Capital Raise Attempt

As a result of S&P's action, AIG accelerated the process of attempting to raise additional capital and over the weekend of September 13 and 14, 2008 discussed potential capital injections and other liquidity measures with private equity firms, sovereign wealth funds and other potential investors. AIG kept the United States Treasury and the NY Fed informed of these efforts. AIG also engaged Blackstone Advisory Services LP to assist in developing alternatives, including a potential additional capital raise. Despite offering a number of different structures through this process, AIG did not receive a proposal it could act upon in a timely fashion. AIG's difficulty in this regard resulted in part from the dramatic decline in its common stock price from $22.76 on September 8, 2008 to $12.14 on September 12, 2008. This decrease in stock price made it unlikely that AIG would be able to raise the large amounts of capital that would be necessary if AIG's long-term debt rating were downgraded.

AIG Attempts to Enter into a Syndicated Secured Lending Facility

On Monday, September 15, 2008, AIG was again unable to access the commercial paper market for its primary commercial paper programs, AIG Funding, ILFC and AGF. Payments under the programs totaled $2.2 billion for the day, and AIG advanced loans to ILFC and AGF to meet their funding obligations. In addition, AIG experienced returns under its securities lending programs which led to cash payments of $5.2 billion to securities lending counterparties on that day.

On Monday morning, September 15, 2008, AIG met with representatives of Goldman, Sachs & Co., J.P. Morgan and the NY Fed to discuss the creation of a $75 billion secured lending facility to be syndicated among a number of large financial institutions. The facility was intended to act as a bridge loan to meet AIG parent's liquidity needs until AIG could sell sufficient assets to stabilize and enhance its liquidity position. Goldman, Sachs & Co. and J.P. Morgan immediately began the syndication attempt.

The Rating Agencies Downgrade AIG's Long-Term Debt Rating

In the late afternoon of September 15, 2008, S&P downgraded AIG's long-term debt rating by three notches, Moody's downgraded AIG's long-term debt rating by two notches and Fitch downgraded AIG's long-term debt rating by two notches. As a consequence of the rating actions, AIGFP estimated that it would need in excess of $20 billion in order to fund additional collateral demands and transaction termination payments in a short period of time. Subsequently, in a period of approximately 15 days following the rating actions, AIGFP was required to fund approximately $32 billion, reflecting not only the effect of the rating actions but also changes in market levels and other factors.

The Private Sector Solution Fails

By Tuesday morning, September 16, 2008, it had become apparent that Goldman, Sachs & Co. and J.P. Morgan were unable to syndicate a lending facility. Moreover, the downgrades combined with a steep drop in AIG's common stock price to $4.76 on September 15, 2008, had resulted in counterparties withholding payments from AIG and refusing to transact with AIG even on a secured short-term basis. As a result, AIG was unable to borrow in the short-term lending markets. To provide liquidity on Tuesday, September 16, 2008, both ILFC and AGF drew down on their revolving credit facilities, resulting in borrowings of approximately $6.5 billion and $4.6 billion, respectively.

Also, on September 16, 2008, AIG was notified by its insurance regulators that it would no longer be permitted to borrow funds from its insurance company subsidiaries under a revolving credit facility that AIG had maintained with certain of its insurance subsidiaries acting as lenders. Subsequently, the insurance regulators required AIG to repay any outstanding loans under that facility and to terminate it. The intercompany facility was terminated effective September 22, 2008.

Fed Credit Agreement

By early Tuesday afternoon on September 16, 2008, it was clear that AIG had no viable private sector solution to its liquidity crisis. At this point, AIG received the terms of a secured lending agreement that the NY Fed was prepared to provide. AIG estimated that it had an immediate need for cash in excess of its available liquid resources. That night, AIG's Board of Directors approved borrowing from the NY Fed based on a term sheet that set forth the terms of the secured credit agreement and related equity participation. Over the next six days, AIG elected Edward M. Liddy, Director, Chairman, and CEO, replacing Robert Willumstad in those positions, and negotiated a definitive credit agreement with the NY Fed and borrowed, on a secured basis, approximately

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$37 billion from the NY Fed before formally entering into the Fed Credit Agreement.

On September 22, 2008, AIG entered into the Fed Credit Agreement in the form of a two-year secured loan and a Guarantee and Pledge Agreement (the Pledge Agreement) with the NY Fed. See Notes 5 and 11 to the Consolidated Financial Statements for more information regarding the terms of and borrowings under the Fed Credit Agreement.

Borrowings outstanding and remaining available amount that can be borrowed under the Fed Facility were as follows:

(in millions)	Inception Through September 30, 2008	Inception Through November 5, 2008
Borrowings:		
Loans to AIGFP for collateral postings, GIA and other maturities	$35,340	$43,100
Capital contributions to insurance companies[(a)]	13,341	13,687
Repayment of obligations to securities lending program	3,160	3,160
AIG Funding commercial paper maturities	2,717	3,714
Repayment of intercompany loans	1,528	1,528
Contributions to AIGCFG subsidiaries	1,094	1,591
Debt repayments	1,038	1,578
Other borrowings[(a)]	2,782	8,642
Total borrowings	61,000	77,000
Repayments:		
Repayments not reducing available amounts	–	16,000 [(b)]
Repayments reducing available amounts	–	–
Total repayments	–	16,000
Net borrowings	61,000	61,000
Total Fed Facility	85,000	85,000
Remaining available amount	24,000	24,000
Net borrowings	61,000	61,000
Paid in kind interest and fees	1,960	1,960
Total balance outstanding	$62,960	$62,960

(a) Includes securities lending activities.
(b) Includes repayments due to funds received from the Fed Securities Lending Agreement and the CPFF.

Liquidity Related Actions and Plans

AIG's Strategy for Stabilization and Repayment of the Fed Facility

AIG has developed certain plans (described below), some of which have already been implemented, to provide stability to its businesses and to provide for the timely repayment of the Fed Facility; other plans are still being formulated.

Preferred Equity Investment by the United States Treasury Pursuant to TARP

On November 9, 2008, AIG and the United States Treasury agreed in principle to a transaction pursuant to which the United States Treasury will purchase from AIG $40 billion liquidation preference of newly issued perpetual preferred stock (Series D Preferred Shares) under TARP. The Series D Preferred Shares will be in addition to the Series C Preferred Stock that AIG is obligated to issue to the Trust in connection with the Fed Credit Agreement. AIG is required to use the net proceeds from the sale of the Series D Preferred Shares to repay a portion of the outstanding balance under the Fed Facility.

The Series D Preferred Shares will rank *pari passu* with the Series C Preferred Stock and senior to AIG's common stock. The Series D Preferred Shares will have limited class voting rights and will accumulate cumulative compounding dividends at a rate equal to 10 percent per annum. The dividends will be payable when, as and if declared by AIG's Board of Directors. AIG will not be able to declare or pay any dividends on AIG's common stock or on any AIG preferred stock ranking *pari passu* with or junior to the Series D Preferred Shares until dividends on the Series D Preferred Shares have been paid. AIG may redeem the Series D Preferred Shares at the stated liquidation preference, plus accumulated but unpaid dividends, at any time that the Trust or any successor entity beneficially owns less than 30 percent of AIG's voting securities and no holder of Series D Preferred Shares controls or has the potential to control AIG.

Pursuant to the agreement between AIG and the United States Treasury in connection with the Series D Preferred Shares, for as long as the United States Treasury owns any of the Series D Preferred Shares, AIG will be subject to restrictions on its ability to repurchase capital stock and will

be required to adopt and maintain policies on corporate expenses, lobbying activities and executive compensation.

In connection with the issuance of the Series D Preferred Shares, AIG will also issue a 10-year warrant to the United States Treasury exercisable for a number of shares of common stock of AIG equal to two percent of the issued and outstanding shares of common stock on the date of the investment. In connection with the issuance of the warrant, the voting, conversion rights and dividend rights of the Series C Preferred Stock will be reduced from 79.9 percent to 77.9 percent. The warrant will be exercisable at any time and have an exercise price equal to the par value of AIG's common stock at the time of exercise. The United States Treasury has agreed that it will not exercise any voting rights with respect to the common stock issued upon exercise of the warrant. The warrant will not be subject to contractual transfer restrictions other than restrictions necessary to comply with U.S. federal and state securities laws. AIG will be obligated, at the request of the United States Treasury, to file a registration statement with respect to the warrant and the common stock for which the warrant can be exercised. During the 10-year term of the warrant, if the shares of common stock of AIG are no longer listed or trading on a national securities exchange, AIG may be obligated, at the direction of the United States Treasury, to exchange all or a portion of the warrant for another economic interest of AIG classified as permanent equity under U.S. GAAP with an equivalent fair value. If the Series D Preferred Shares issued in connection with the warrant are redeemed in whole, AIG may repurchase the warrant then held by the United States Treasury at any time for its fair value so long as no holder of a warrant controls or has the potential to control AIG. As a result of the issuance of the warrant, the number of shares into which the Series C Preferred Stock will be convertible will be reduced so as not to exceed 77.9 percent of the outstanding shares of common stock.

The Fed Securities Lending Program

On October 8, 2008, certain of AIG's domestic life insurance subsidiaries entered into the Fed Securities Lending Agreement, providing that the NY Fed will borrow, on an overnight basis, investment grade fixed maturity securities from these AIG subsidiaries in return for cash collateral. Prior to this arrangement, draw downs under the existing Fed Facility were used, in part, to settle securities lending transactions. The NY Fed has been borrowing securities under the Fed Securities Lending Agreement, which has allowed AIG to replenish liquidity in the securities lending program on an as-needed basis, while providing possession and control of these third-party securities to the NY Fed.

As of November 5, 2008, the total value of securities lending payables was $34.2 billion, with $19.9 billion of this amount payable to the NY Fed under this agreement. This program will be terminated on the closing of the RMBS sale as described below.

Transfer of RMBS by certain AIG Insurance Subsidiaries

AIG and the NY Fed expect to establish a facility under which approximately $40 billion principal amount of residential mortgage-backed securities (RMBS) related to AIG's U.S. securities lending program will be transferred by certain AIG insurance subsidiaries to a newly-formed limited liability company (the RMBS LLC) that will be financed by the NY Fed and AIG. Proceeds to the insurance company subsidiaries, together with other AIG funds, will be used to return all cash collateral posted by securities borrowers, including approximately $19.9 billion to be returned to the NY Fed. After all collateral is returned, AIG's U.S. Securities lending program will be terminated.

The aggregate proceeds to the AIG insurance subsidiaries will be equal to the estimated fair value of the RMBS at October 31, 2008, adjusted for collections and certain other events between such date and the closing date of the purchase, which is expected to be prior to November 30, 2008. At September 30, 2008, the fair value of the RMBS being transferred was $23.5 billion. AIG will provide $1 billion of proceeds to the AIG entities and the NY Fed will provide the remainder of the proceeds up to $22.5 billion.

Interest on both the NY Fed's senior loan and AIG's subordinated loan will be capitalized (converted to principal of the related loan instead of being paid in cash). Payments of interest on, and principal of, the RMBS and the net sale proceeds, if any, on the RMBS received by the RMBS LLC will be used to pay principal of the NY Fed's senior loan in full before any payments are made on AIG's subordinated loan. None of the obligations of RMBS LLC have recourse to AIG, although AIG's subordinated loan will be exposed to losses of the RMBS LLC up to $1 billion plus the amount of capitalized interest thereon. After the loans have returned amounts equal to their principal and capitalized interest, payments with respect to the remaining RMBS received by the RMBS LLC will be allocated as contingent interest on both of the loans. There are no economic interests in the RMBS LLC other than the NY Fed's senior loan and AIG's subordinated loan.

The implementation of RMBS LLC is subject to the approval of the relevant state insurance commissioners.

Terminations of Multi-Sector Credit Default Swap Transactions

AIGFP currently has outstanding multi-sector credit default swaps with third-party counterparties related to CDOs. Such credit default swaps require that AIGFP post collateral with the counterparties to secure its obligations based on fair value deterioration, ratings downgrades of referenced obligations and downgrades of AIG's ratings. As of November 5, 2008, AIGFP had either agreed to post or posted collateral based on exposures, calculated in respect of super senior credit default swaps in an aggregate net amount of $37.3 billion.

AIG and the NY Fed expect to establish a facility in which a newly-formed limited liability company (the CDO LLC) will offer to purchase CDOs from the counterparties, who will concurrently with such purchase terminate the related credit default swaps. AIGFP and the NY Fed have begun negotiating the terminations; depending on the level of counterparty participation, on the closing date, the NY Fed will advance up to $30 billion (the Tranche A Loan) and AIG will advance up to $5 billion (the Tranche B Loan) to the CDO LLC to fund the purchase price of such CDOs. Separately, AIG will pay the costs associated with the unwind of the related credit default swaps, and so will bear the risk of declines in the market value of the CDOs through October 31, 2008. After the closing date, AIGFP will not be subject to any further collateral calls related to the terminated credit default swaps.

Interest on both the Tranche A Loan and the Tranche B Loan will be capitalized. Payments of interest on, and principal of, the CDOs received by the CDO LLC will be used to pay principal and interest of the Tranche A Loan in full before any payments are made on the Tranche B Loan. None of the obligations of the CDO LLC have recourse to AIG, although AIG's Tranche B Loan will be exposed to losses of the CDO LLC up to its principal amount plus the amount of capitalized interest thereon. After the loans have returned amounts equal to their principal and capitalized interest, payments with respect to the remaining CDOs received by the CDO LLC will be allocated as contingent interest on both of the loans. There are no economic interests in the CDO LLC other than the Tranche A Loan and Tranche B Loan.

Because the successful implementation of the proposed establishment of the CDO LLC depends on the agreement of the counterparties to terminate their super senior credit default swaps, no assurance can be given that this facility will be completed or, if completed, on the level of participation.

Commercial Paper Funding Facility

On October 27, 2008, four AIG affiliates applied for participation in the NY Fed's Commercial Paper Funding Facility (CPFF). AIG Funding, Inc., ILFC, Curzon Funding LLC and Nightingale Finance LLC may issue up to approximately $6.9 billion, $5.7 billion, $7.2 billion and $1.1 billion, respectively, of commercial paper under the CPFF. As of November 5, 2008, these entities had borrowed a total of approximately $15.2 billion under this facility, which allowed AIG to repay borrowings under the Fed Facility.

These AIG affiliates are participating in the CPFF on the same terms and conditions as other non-AIG companies.

Proceeds from the issuance of the commercial paper will be used to refinance AIG's outstanding commercial paper as it matures, meet other working capital needs and make voluntary prepayments under the Fed Facility. The voluntary repayments of the Fed Facility will not reduce the amount available to be borrowed thereunder.

Asset Disposition Plan

AIG has recently hired a Vice Chairman and Chief Restructuring Officer to oversee the asset disposition plan and has developed a plan to sell assets and businesses to repay the Fed Facility.

AIG intends to retain the majority of its U.S. property and casualty and foreign general insurance businesses, and to retain an ownership interest in certain of its foreign life insurance operations. AIG is exploring divestiture opportunities for its remaining businesses. Proceeds from these sales are contractually required to be applied toward the repayment of the Fed Facility. None of the businesses under consideration for sale at September 30, 2008 met the criteria in Statement of Financial Accounting Standards (FAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" to qualify as "held for sale." AIG continues to evaluate the status of its asset sales with respect to these criteria.

In connection with AIG's asset disposition plan, subsequent to September 30, 2008, AIG entered into negotiations to sell certain operations in its General Insurance, Life Insurance and Retirement Services, Financial Services and Asset Management operating segments. These operations had total assets and liabilities with carrying values of approximately $9 billion and $6 billion, respectively, at September 30, 2008. AIG expects to enter into purchase agreements with respect to these assets during the fourth quarter of 2008.

Dispositions of certain businesses may be subject to regulatory approval.

Expense Reductions and Preservation of Cash and Capital

AIG has named a Vice Chairman, Transition Planning and Chief Administrative Officer to lead expense reduction initiatives and transition planning. AIG has developed a plan to review significant projects and will eliminate, delay, or curtail those that are discretionary or non-essential and to make available internal resources, reduce cash outflows to outside service providers to improve liquidity. AIG also suspended the dividend on its common stock to preserve capital.

Negative Effects of Liquidity Events

As a result of AIG's deteriorated financial condition and its announced strategies, AIG's businesses have been subjected to strained relationships with customers, brokers, agents, other business partners and employees as well as increased monitoring by regulatory agencies. Specific issues related to AIG's businesses are addressed below.

General Insurance

While the Commercial Insurance Group (CIG) has been generally successful in retaining clients, the amount of business AIG underwrites for clients has declined. Concern over AIG's

financial strength has a particularly adverse effect on CIG underwriting of directors' and officers' insurance, especially at the higher attachment points.

New business activity has been at lower levels, and AIG continues to see pricing pressure in its general insurance business.

The domestic property and casualty companies are beneficiaries of $5.7 billion of letters of credit arranged by AIG and its subsidiaries. Letters of credit totaling $4.2 billion will expire on December 31, 2008 and the remainder will expire on December 31, 2010. These letters of credit secure amounts recoverable from both affiliated and unaffiliated reinsurers. The inability of AIG to renew or replace these letters of credit or otherwise obtain equivalent financial support from AIG or a third-party would result in a significant reduction of the statutory surplus of these property and casualty insurance companies. AIG is pursuing alternatives to letters of credit such as trust agreements and other forms of credit support and is also pursuing opportunities to significantly reduce the need for such security after December 31, 2008.

Capital Maintenance

AIG has capital maintenance agreements with the companies included in the Commercial Insurance and Mortgage Guaranty reporting units under which AIG may be required to provide ongoing capital support.

Life Insurance & Retirement Services

Disruptions in markets throughout the world and AIG's recent liquidity issues have had, and AIG expects will continue to have, a significant adverse effect on Life Insurance & Retirement Services operating results, specifically its net investment income, deferred policy acquisition costs (DAC) and sales inducement asset (SIA) amortization and net realized capital losses in 2008. AIG expects that these events and AIG's previously announced asset disposition plan will continue to be key factors in the remainder of 2008 and into 2009. In addition, AIG parent's liquidity issues have affected certain operations through higher surrender activity, particularly in the U.S. domestic retirement service's fixed annuity business and foreign investment-oriented and retirement service's products in Japan and Asia. For Japan and Korea, surrenders are expected to continue to be higher than historic averages in the next quarter and possibly beyond due to the suspension of sales by some banks, equity market volatility and elevated levels of surrenders. While surrender levels have declined from their peaks in mid-September, they are still higher than historic levels and AIG expects them to remain at these higher than historic levels until the uncertainties relating to AIG are resolved.

These uncertainties, together with rating agency downgrades, have resulted in reduced levels of new sales activity, particularly among products and markets where ratings are critical. Sales of investment-oriented and retirement services products in Japan and Asia have also declined. New sales activity is expected to remain at lower levels until the uncertainties relating to AIG are resolved.

Due to the high volume of surrender activity for certain investment-oriented products in the U.K., surrender payments were temporarily suspended in accordance with contract terms to provide time to develop an appropriate course of action with the respective distribution network and to protect the interests of the fund's policyholders.

During the three months ended September 30, 2008 and through October 29, 2008, AIG contributed capital totaling $16.6 billion ($11.8 billion of which was contributed using borrowings under the Fed Facility) to certain of its Domestic Life Insurance and Domestic Retirement Services subsidiaries to replace a portion of the capital lost as a result of net realized capital losses. Further capital contributions will be required to the extent additional net realized capital losses are incurred. In Taiwan, AIG expects to contribute approximately $1.4 billion to Nan Shan in November 2008 as a result of the continued declines in the Taiwan equity market. AIG made capital contributions of $1.3 billion to support foreign life operations in Hong Kong and Japan, principally due to the steep decline in AIG's common stock price. Additional capital contributions to certain operations may be necessary during the remainder of 2008, in large measure due to the continued effect of equity market volatility, declining bond prices and net realized capital losses resulting from other-than-temporary impairment charges.

Financial Services

International Lease Finance Corporation

As a result of AIG parent's liquidity issues and related credit rating downgrades, ILFC was unable to borrow in the public short-term and long-term debt markets, and therefore, ILFC borrowed $6.5 billion under its credit facilities in September 2008. ILFC expects to use these borrowings to repay maturing commercial paper and other obligations. AIG expects that ILFC may raise additional funds through secured lending transactions in early 2009. ILFC can also issue commercial paper under the CPFF. ILFC believes that these borrowings and cash from operations, which may include aircraft sales, will permit ILFC to meet its obligations through September 2009, after which AIG would rely upon additional asset sales and funding through the Fed Facility.

Capital Markets

Given the extreme market conditions during the third quarter of 2008, downgrades of AIG's credit ratings by the rating agencies, as well as AIG's intention to refocus on its core business, AIGFP began unwinding certain of its businesses and portfolios. AIG is only entering into new derivative transactions to maintain its current portfolio, reduce risk and hedge

the currency and interest rate risks associated with its affiliated businesses. AIG is also opportunistically terminating contracts. Due to the long-term duration of AIGFP's derivative contracts and the complexity of AIGFP's portfolio, AIG expects that an orderly wind-down will take a substantial period of time.

American General Finance

As a result of AIG parent's liquidity issues and the related credit ratings downgrades, AGF suspended its efforts to borrow in the public short-term and long-term debt markets. As a result, AGF borrowed approximately $4.6 billion under its primary credit facilities in September 2008. AGF anticipates that its primary sources of funds to support its operations and repay its obligations will be finance receivable collections from operations and secured financings, which will require it to limit its lending activities and focus on expense savings. AGF anticipates that its existing sources of funds will be sufficient to meet its debt and other obligations through the first quarter of 2009. AGF will need additional sources of funds at that time, including sales of AGF assets and funding through the Fed Facility.

AIG Consumer Finance Group

AIG's recent liquidity issues and related credit ratings downgrades have materially adversely affected AIG Consumer Finance Group, Inc. (AIGCFG). AIGCFG experienced significant deposit withdrawals in Hong Kong during September 2008. The inability of AIGCFG to access its traditional sources of funding resulted in AIG lending $1.6 billion to subsidiaries of AIGCFG in September and October of 2008. AIG expects that these businesses will continue to be materially adversely affected until the current uncertainties concerning AIG and the potential sale of these businesses are resolved.

Asset Management

The principal cash requirements in Asset Management are to fund warehousing activities, existing capital commitments and certain direct investments.

General disruption in the global equity and credit markets and the liquidity issues at AIG have negatively affected the Institutional Asset Management segment operating results. Distressed global markets have reduced the value of assets under management, translating to lower base management fees and reduced performance fees (carried interest). Tight credit markets have put pressure on the commercial and residential real estate markets, which has caused values in certain geographic locations to fall, resulting in impairment charges on real estate held for investment purposes.

AIG parent's liquidity issues and lower asset performance as a result of challenging market conditions have contributed to the loss of institutional and retail clients as well as higher redemptions from some of AIG's managed hedge and mutual funds. The continued uncertainty in the equity and credit markets, as well as AIG parent's liquidity issues and the proposed asset dispositions, will continue to adversely affect management and performance fees as well as AIG's ability to launch new funds and investment strategies.

Within the Spread-Based Investment business, distressed markets have resulted in significant loss of invested asset value and AIG expects such losses to continue through the remainder of 2008. In addition, given market conditions, AIG does not expect to issue any additional debt to fund the MIP for the foreseeable future.

Other Effects

As disclosed in its 2007 Annual Report on Form 10-K, AIG expected to contribute approximately $118 million to its U.S. and non-U.S. pension plans in 2008. For the nine months ended September 30, 2008, AIG had contributed $122 million to its U.S. and non-U.S. pension plans. Based upon the current funded status of the plans, the current interest rate environment, and the projected performance of pension plan assets, additional expected contributions for the U.S. and non-U.S. pension plans in the 2008 fourth quarter range from approximately $168 million to $532 million. Actual contributions, however, will depend on asset performance, foreign exchange rates, and the interest rate environment as of December 31, 2008. Actual contributions may also vary as a result of anticipated dispositions.

Regulators in various jurisdictions in which AIG entities operate have imposed additional requirements on the AIG entities. These requirements primarily require AIG to obtain prior approval from the regulator for transactions related to the dispositions of assets, transfers of cash or other transactions outside the normal course of business. In addition, certain regulators have requested additional capital or collateral to be posted. To date, these requirements have not had a significant effect on AIG's operations.

AIG conducted an annual goodwill impairment review as of June 30, 2008. In connection with the decline in the price of AIG's common stock during the third quarter of 2008, AIG conducted an updated goodwill impairment test as of September 30, 2008. As a result of the updated test AIG recognized goodwill impairment charges of $432 million for the three-month period ended September 30, 2008, which were primarily related to the domestic Consumer Finance and the Capital Markets businesses.

In addition, the excess of the fair value over the carrying value of AIG's Personal Lines and foreign Consumer Finance businesses narrowed subsequent to the June 30, 2008 test. As of September 30, 2008, goodwill related to these businesses totaled approximately $700 million and $344 million, respectively. A continuation of the decline in fair value of these

businesses could result in impairment of goodwill in the future.

Risk Factors

The following supplements the significant factors that may affect AIG's business and operations described under "Risk Factors" in Item 1A. of Part I of AIG's 2007 Annual Report on Form 10-K.

Business and Credit Environment

AIG's businesses, results of operations and financial condition have been materially and adversely affected by recent market conditions.

During the third quarter of 2008 continuing through November 2008, worldwide economic conditions significantly deteriorated. The decline in economic conditions has resulted in highly volatile markets, a steep decline in equity markets, further and continuing lack of liquidity, a widening of credit spreads, a lack of price transparency and the collapse of several prominent financial institutions. Global regulators and central banks have taken a number of unprecedented steps to address these issues, but it is unclear whether these measures will be effective or, if effective, when the markets will stabilize.

AIG has been materially and adversely affected by these conditions and events in a number of ways, including:

- severe and continued declines in its investment portfolio, leading to significant other-than-temporary impairments;
- significant credit losses due to the failure of, or governmental intervention with respect to, several prominent institutions; and
- a general decline in business activity.

The consequences of these conditions have been more severe for AIG than for other insurers. AIG expects its businesses, financial condition and results of operations will continue to be materially and adversely affected by these conditions for the foreseeable future.

AIG is subject to extensive litigation that may have a material adverse effect on its consolidated financial condition or its consolidated results of operations.

As described in Note 7(a) to the Consolidated Financial Statements, AIG is subject to extensive litigation, including securities class actions. Due to the nature of this litigation, the lack of precise damage claims and the type of claims made against AIG, AIG cannot currently quantify its ultimate liability for these actions. It is possible that such liability could have a material adverse effect on AIG's consolidated financial condition or consolidated results of operations for an individual reporting period.

Credit and Financial Strength Ratings

Adverse ratings actions regarding AIG's long-term debt ratings by Moody's or S&P would require AIG to make additional substantial collateral payments under existing derivative transactions to which AIGFP is a party, which could adversely affect AIG's business and its consolidated results of operations and financial condition.

On September 15, 2008, the following credit rating actions were taken:

- Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P), lowered its long-term debt rating on AIG to 'A-' from 'AA-', and its short-term debt rating to 'A-2' from 'A-1+'. S&P also downgraded the long-term debt and short-term debt ratings of International Lease Finance Corp. (ILFC) to 'A-' from 'A+' and to 'A-2' from 'A-1,' respectively and the long-term and short-term debt ratings of American General Finance Corporation (AGF Corp.) to 'BBB' from 'A+' and to 'A-3' from 'A-1,' respectively. At the same time, S&P lowered its counterparty credit and financial strength ratings on most of AIG's insurance operating subsidiaries to 'A+' from 'AA+'. All of the ratings remained on CreditWatch Negative.
- Moody's Investors Service (Moody's) lowered AIG's senior unsecured debt ratings to 'A2' from 'Aa3' and placed the long-term and short-term ratings on review for possible downgrade. In addition, Moody's downgraded the ratings of several AIG subsidiaries, including the Domestic Life Insurance and Retirement Services companies (Insurer Financial Strength Rating to 'Aa3' from 'Aa2'), and ILFC and AGF Corp. (Senior Unsecured Debt Rating to 'A3' from 'A1' and short-term debt rating to 'P-2' from 'P-1.') Nearly all of AIG's subsidiaries remained on review for possible downgrade.
- Fitch Ratings (Fitch) lowered AIG's long-term issuer rating to 'A' from 'AA-' and its short-term issuer rating to 'F1' from 'F1+'. In addition, Fitch downgraded nearly all of AIG's subsidiaries' Insurer Financial Strength Ratings to 'AA-' from 'AA+.' A majority of the ratings remained on Rating Watch Negative.
- A.M. Best Company (A.M. Best) lowered AIG's issuer credit rating to 'bbb' from 'a+'. In addition, A.M. Best downgraded most of AIG's Insurer Financial Strength Ratings to 'A' from 'A+' and placed the ratings under review with negative implications.

As a consequence of the rating actions, AIGFP estimated that it would need in excess of $20 billion in order to fund additional collateral demands and transaction termination payments in a short period of time. Subsequently, in a period of approximately 15 days following the rating actions, AIGFP was required to fund approximately $32 billion, reflecting not only the effect of the rating actions but also changes in market levels and other factors.

Following the agreement with the NY Fed announced on September 17, 2008, the following credit rating actions were taken:

- S&P upgraded AIG's and ILFC's short-term debt ratings to 'A-1' from 'A-2' and revised the CreditWatch status on all ratings from CreditWatch Negative to CreditWatch Developing.
- Fitch revised the rating watch status on all ratings from Rating Watch Negative to Rating Watch Evolving.

Following AIG's strategic review press release on October 3, 2008, the following credit rating actions were taken:

- S&P revised the CreditWatch status on AIG's and AGF Corp.'s ratings from CreditWatch Developing to CreditWatch Negative.
- Moody's downgraded AIG's Senior Unsecured Debt rating to 'A3' from 'A2' and ILFC and AGF Corp.'s Senior Unsecured Debt ratings to 'Baa1' from 'A3.' Most ratings remain under review for possible downgrade with ILFC revised to under review with direction uncertain.

Credit ratings measure a company's ability to repay its obligations and directly affect the cost and availability to that company of unsecured financing.

In the event of a further downgrade of AIG's long-term senior debt ratings, AIG would be required to post additional collateral and AIG or its counterparties would be permitted to elect early termination of contracts.

It is estimated that as of the close of business on October 27, 2008, based on AIGFP's outstanding municipal GIAs and financial derivative transactions at that date, a downgrade of AIG's long-term senior debt ratings to Baa1 by Moody's and BBB+ by S&P would permit counterparties to make additional calls and permit either AIG or the counterparties to elect early termination of contracts, resulting in up to approximately $5.2 billion of collateral and termination payments, while a downgrade to Baa2 by Moody's and BBB by S&P would result in approximately $0.3 billion in additional collateral and termination payments.

For the multi-sector super senior credit default swap portfolio, it is estimated based on the October 24, 2008 notional values a downgrade of AIG's long-term senior debt ratings to Baa1 by Moody's and BBB+ by S&P, would increase the amount of collateral posted by approximately $2.7 billion due to the adjustment of threshold and independent amount percentages. A downgrade to Baa2 by Moody's and BBB by S&P would allow the counterparties to certain 2a7 puts to elect early termination, resulting in a cash outflow of approximately $3.7 billion. In addition, at that rating level, counterparties to transactions representing approximately $47.8 billion in net notional amount have the right to elect early termination. In the event a counterparty elects to terminate a transaction early, such transaction will be terminated at its replacement value, less any previously posted collateral. Due to current market conditions, it is not possible to reliably estimate the replacement cost of these transactions.

The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. Additional obligations to post collateral or the costs of assignment, repayment or alternative credit could exceed the amounts available under the Fed Credit Agreement. See discussion of the Fed Credit Agreement below.

A downgrade in the short-term credit ratings of the commercial paper programs of certain AIG affiliates could make these issuers ineligible for participation in the NY Fed's Commercial Paper Funding Facility (CPFF).

AIG's affiliates AIG Funding, Inc., ILFC, Curzon Funding LLC and Nightingale Finance LLC currently participate in the CPFF. However, in the event of a downgrade of the short-term credit ratings applicable to the commercial paper programs of these issuers, the affiliates may no longer qualify for participation in the CPFF. The CPFF only purchases U.S. dollar-denominated commercial paper (including asset-backed commercial paper) that is rated at least A-1/P-1/F1 by a major nationally recognized statistical rating organization (NRSRO) or, if rated by multiple major NRSROs, is rated at least A-1/P-1/F1 by two or more major NRSROs. Accordingly, these AIG affiliates will lose access to the CPFF if:

- AIG Funding's short-term rating is downgraded by any two of S&P, Moody's or Fitch;
- ILFC's short-term rating is downgraded by either S&P or Fitch;
- Curzon Funding LLC's short-term rating is downgraded by either S&P or Moody's; and
- Nightingale Finance LLC's short-term rating is downgraded two notches by S&P or one notch by Moody's.

A downgrade in the Insurer Financial Strength ratings of AIG's insurance companies could prevent the companies from writing new business and retaining customers and existing business.

Financial strength ratings by the major ratings agencies are an important factor in establishing the competitive position of insurance companies. Financial strength ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders, help maintain public confidence in a company's products, facilitate marketing of products and enhance a company's competitive position.

Further downgrades of the Insurer Financial Strength ratings of AIG's insurance companies may prevent these

companies from offering products and services or result in increased policy cancellations or termination of assumed reinsurance contracts. Moreover, a downgrade in AIG's credit ratings may, under credit rating agency policies concerning the relationship between a parent's and subsidiary's ratings, result in a downgrade of the Insurer Financial Strength ratings of AIG's insurance subsidiaries.

Fed Facility

The Fed Credit Agreement and the Series D Preferred Shares will require AIG to devote significant resources to debt repayment and preferred dividends for the foreseeable future, thereby reducing capital available for other purposes.

AIG is required to repay the Fed Credit Agreement primarily from the proceeds of sales of assets, including businesses. These mandatory repayments permanently reduce the amount available under the Fed Credit Agreement.

In addition, American General Finance, Inc. (AGF) and ILFC have drawn the full amounts available under their revolving credit facilities and currently do not have access to their traditional sources of long-term or short-term financing through the public debt markets.

Unanticipated collateral calls, continued high surrenders, a downgrade in AIG's credit ratings or a further deterioration in AIGFP's super senior credit default swap portfolio may cause AIG to need additional funding in excess of the borrowings available under the Fed Credit Agreement. If AIG needs funds in excess of those available under the Fed Credit Agreement, AIG will need to find additional financing. Further, an inability to effect asset sales in accordance with its asset disposition plan may result in AIG not being able to timely repay its borrowings under the Fed Credit Agreement. See also Significant Liquidity Requirements — Asset Disposition Plan for a discussion of AIG's asset disposition plan.

The Series D Preferred Shares pay a 10 percent dividend which will not be deductible for tax purposes.

AIG's substantial obligations will require it to dedicate all of its proceeds from asset sales and a considerable portion of its cash flows from operations to the repayment of the Fed Facility, thereby reducing the funds available for other purposes. In addition, because AIG's debt service and preferred dividend obligations will be very high, AIG may be more vulnerable to competitive pressures and expects to have less flexibility to plan for or respond to changing business and economic conditions.

Borrowings under the Fed Credit Agreement are subject to the NY Fed being satisfied with the collateral pledged by AIG.

A condition to borrowing under the Fed Credit Agreement is that the NY Fed be satisfied with the collateral pledged by AIG (including its value). It is possible that the NY Fed may determine that AIG's collateral is insufficient to permit a borrowing for many reasons including:

- a decline in the value of AIG's businesses;
- poor performance in one or more of AIG's businesses; and
- low prices received by AIG in its asset disposition plan.

Such a determination could limit AIG's ability to borrow under the Fed Facility.

AIG must sell significant assets to service the debt under the Fed Credit Agreement.

AIG must make asset sales to repay the borrowings under the Fed Credit Agreement. A delay or inability to effect these sales at acceptable prices and terms could result in AIG being unable to repay the Fed Credit Agreement by its maturity date.

While AIG has adopted an asset disposition plan, as discussed under Significant Liquidity Requirements, this plan may not be successfully executed due to, among other things:

- an inability of purchasers to obtain funding due to the deterioration in the credit market;
- a general unwillingness of potential buyers to commit capital in the difficult current market environment; and
- an adverse change in interest rates and borrowing costs.

Further, due to AIG's need to dispose of assets, AIG may be unable to negotiate favorable terms.

If AIG is not able to execute its disposition plan, and cannot otherwise repay the Fed Facility in accordance with its terms, an event of default would result. If an event of default were to occur, the NY Fed could, among other things, declare outstanding borrowings under the Fed Facility immediately due and payable. In addition, an event of default or declaration of acceleration under the Fed Credit Agreement could also result in an event of default under other agreements.

The Fed Credit Agreement includes financial and other covenants that impose restrictions on AIG's financial and business operations.

The Fed Credit Agreement requires AIG to maintain a minimum aggregate liquidity level and restricts AIG's ability to make certain capital expenditures if the NY Fed objects thereto. In addition, the Fed Credit Agreement restricts AIG's and its restricted subsidiaries' ability to incur additional indebtedness, incur liens, merge, consolidate, sell assets, enter into hedging transactions outside the normal course of business, or pay dividends. These covenants could restrict AIG's business and thereby adversely affect AIG's results of operations.

Moreover, if AIG fails to comply with the covenants in the Fed Credit Agreement and is unable to obtain a waiver or amendment, an event of default would result. If an event of default were to occur, the NY Fed could, among other things, declare outstanding borrowings under the Fed Credit Agreement immediately due and payable. In addition, an event of default or declaration of acceleration under the Fed Credit Agreement could also result in an event of default under other agreements.

AIG's results of operations will be materially adversely affected by a significant increase in interest expense.

AIG expects its results of operations in the fourth quarter of 2008 and in 2009 to be significantly adversely affected by the recognition of interest expense. AIG's initial $1.7 billion commitment fee will amortize over the term of the Fed Facility. Finally, the prepaid commitment fee asset of $23 billion associated with the Preferred Stock to be issued will be amortized through interest expense over the term of the Fed Facility. As a result, AIG anticipates that interest expense in the fourth quarter of 2008 and in the year ended December 31, 2009 will significantly increase as a result of these items. In addition, paid in kind interest expense under the Fed Facility is accrued over the term of the Fed Facility.

Liquidity

AIG's businesses have been adversely affected by AIG's reduced liquidity.

Many of AIG's businesses depend upon the financial stability (both actual and perceived) of AIG parent. Perceptions that AIG or its subsidiaries may not be able to meet their obligations can negatively affect AIG's businesses in many ways, including:

- requests by customers to withdraw funds from AIG under annuity and certain life insurance contracts;
- a refusal by independent agents, brokers and banks to continue to offer AIG products and services;
- a refusal of customers or vendors to continue to do business with AIG; and
- requests by customers and other parties to terminate existing contractual relationships.

AIG's ability to access funds from its subsidiaries is limited.

As a holding company, AIG depends on dividends, distributions and other payments from its subsidiaries to fund payments on AIG's obligations, including its debt securities. In light of AIG's current financial situation, AIG expects that its regulated subsidiaries may be significantly restricted from making dividend payments, or advancing funds, to AIG. This restriction may hinder AIG's ability to access funds that AIG may need to make payments on its obligations, including those arising from day-to-day business activities.

Controlling Shareholder

As a result of the issuance of the Series C Preferred Stock, AIG will be controlled by a trust holding the Series C Preferred Stock for the benefit of the United States Treasury. AIG's interests and those of AIG's minority shareholders may not be the same as those of the United States Treasury.

In accordance with the Fed Credit Agreement, AIG will issue 100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock (the Series C Preferred Stock) to a trust that will hold the Series C Preferred Stock for the benefit of the United States Treasury (the Trust). Pursuant to the agreement in principle reached by AIG and the NY Fed on November 9, 2008 to amend the NY Fed Credit Agreement, the Series C Preferred Stock is entitled to:

- participate in any dividends paid on the common stock, with the payments attributable to the Series C Preferred Stock being approximately, but not in excess of, 77.9 percent of the aggregate dividends paid on AIG's common stock, treating the Series C Preferred Stock as converted; and
- to the extent permitted by law, vote with AIG's common stock on all matters submitted to AIG's shareholders and hold approximately, but not in excess of, 77.9 percent of the aggregate voting power of the common stock, treating the Series C Preferred Stock as converted.

The Series C Preferred Stock will remain outstanding even if the Fed Facility is repaid in full or otherwise terminates. In addition, upon shareholder approval to certain amendments to AIG's certificate of incorporation, the Trust can convert the Series C Preferred Stock into AIG common stock.

As a result of its ownership, the Trust will be able to elect all of AIG's directors and can control the vote on all matters, including:

- approval of mergers or other business combinations;
- a sale of all or substantially all of AIG's assets;
- issuance of any additional common stock or other equity securities;
- the selection and tenure of AIG's Chief Executive Officer and other executive officers;
- the adoption of amendments to AIG's certificate of incorporation; and
- other matters that might be favorable to the United States Treasury.

Moreover, the Trust's ability to prevent an unsolicited bid for AIG or any other change in control could also have an adverse effect on the market price of AIG's common stock.

The Trust may also transfer the Series C Preferred Stock to another person or entity and that person or entity may become AIG's controlling shareholder.

Possible future sales of Series C Preferred Stock or AIG common stock by the Trust could adversely affect the market for AIG common stock.

AIG has agreed to file a shelf registration statement that will allow the Trust to sell Series C Preferred Stock or any shares of common stock it receives upon conversion of the Preferred Stock. In addition, the Trust could sell Series C Preferred Stock or shares of AIG common stock without registration under certain circumstances, such as in a private transaction. Although AIG can make no prediction as to the effect, if any, that such sales would have on the market price of AIG common stock, sales of substantial amounts of Series C Preferred Stock or AIG common stock, or the perception that such sales could occur, could adversely affect the market price of AIG common stock. If the Trust sells or transfers shares of Series C Preferred Stock or AIG common stock as a block, another person or entity could become AIG's controlling shareholder.

Employees

The decline in AIG's common stock price and the announcement of proposed asset dispositions may prevent AIG from retaining key personnel.

AIG relies upon the knowledge and talent of its employees to successfully conduct business. The decline in AIG's common stock price has dramatically reduced the value of equity awards previously granted to its key employees. In addition, the announcement of proposed asset dispositions may result in competitors seeking to hire AIG's key employees. AIG has implemented retention programs to seek to keep its key employees, but there can be no assurance that the programs will be effective. A loss of key personnel could reduce the value of AIG's businesses and impair its ability to effect a successful asset disposition plan.

Change of Control

The issuance of the Series C Preferred Stock may have adverse regulatory consequences for AIG and its subsidiaries and may trigger contractual obligations to third parties.

The Trust will control AIG by virtue of its ownership of the Series C Preferred Stock. AIG and its subsidiaries are subject to various regulatory requirements and are a party to various contracts, agreements, licenses, permits, authorizations and other arrangements (collectively, Arrangements) that contain provisions that, upon a change of control, provide regulators and counterparties with rights to take actions that could have a material effect on AIG's consolidated financial condition, results of operations, or cash flows from an operational, regulatory, compliance, or economic standpoint.

AIG has initiated discussions and activities with regulators and counterparties to take necessary actions to remedy, amend, or comply with the provisions of these Arrangements. AIG has not been notified by regulators or counterparties of their intent to exercise their rights under the Arrangements to a material extent. However, AIG cannot presently predict the effects, if any, the change of control or the other recent events will have on the Arrangements or on AIG's consolidated financial condition, results of operations, or cash flows.

Results of Operations

AIG identifies its operating segments by product line, consistent with its management structure. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. Through these operating segments, AIG provides insurance, financial and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions. AIG's Other category consists of items not allocated to AIG's operating segments.

AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. AIG's Financial Services businesses include commercial aircraft and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services to institutions and individuals.

Consolidated Results

AIG's consolidated statements of income (loss) were as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Percentage Increase/ (Decrease)
Revenues:						
Premiums and other considerations	**$ 21,082**	$19,733	7%	**$ 63,489**	$58,908	8%
Net investment income	**2,946**	6,172	(52)	**14,628**	21,149	(31)
Net realized capital losses	**(18,312)**	(864)	–	**(30,482)**	(962)	–
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**(7,054)**	(352)	–	**(21,726)**	(352)	–
Other income	**2,236**	5,147	(57)	**8,953**	12,888	(31)
Total revenues	**898**	29,836	(97)	**34,862**	91,631	(62)
Benefits and expenses:						
Incurred policy losses and benefits	**17,189**	15,595	10	**51,521**	47,962	7
Policy acquisition and other insurance expenses	**6,919**	5,357	29	**18,560**	15,508	20
Interest expense	**2,297**	1,232	86	**4,902**	3,425	43
Other expenses	**2,678**	2,773	(3)	**8,084**	7,357	10
Total benefits and expenses	**29,083**	24,957	17	**83,067**	74,252	12
Income (loss) before income taxes (benefits) and minority interest	**(28,185)**	4,879	–	**(48,205)**	17,379	–
Income taxes (benefits)	**(3,480)**	1,463	–	**(10,374)**	4,868	–
Income (loss) before minority interest	**(24,705)**	3,416	–	**(37,831)**	12,511	–
Minority interest	**237**	(331)	–	**201**	(1,019)	–
Net income (loss)	**$(24,468)**	$ 3,085	–%	**$(37,630)**	$11,492	–%

Premiums and Other Considerations

Premiums and other considerations increased in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to increases of $854 million, $420 million and $219 million in premiums from Foreign Life Insurance & Retirement Services, Foreign General Insurance, and Domestic Life Insurance, respectively, partially offset by a decrease of $207 million in premiums from Commercial Insurance. Premiums and other considerations increased in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to increases of $2.9 billion, $1.7 billion, and $513 million in premiums from Foreign Life Insurance & Retirement Services, Foreign General Insurance, and Domestic Life Insurance, respectively, partially offset by a decrease of $855 million in premiums from Commercial Insurance. Foreign Life Insurance & Retirement Services premiums increased principally as a result of increased production and favorable foreign exchange rates. Foreign General Insurance premiums increased primarily due to the positive effect of changes in foreign currency exchange rates and new business from both established and new distribution channels. Domestic Life Insurance premium increased primarily due to an increase in sales of payout annuities. Commercial Insurance premiums decreased primarily due to declines in workers' compensation premiums and other casualty lines of business.

Net Investment Income

The components of consolidated net investment income were as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)
Fixed maturities, including short-term investments	**$ 5,773**	$5,406	7%	**$16,691**	$15,976	4%
Equity securities	**277**	226	23	**496**	443	12
Interest on mortgage and other loans	**407**	371	10	**1,182**	1,056	12
Partnerships	**(813)**	274	–	**(641)**	1,444	–
Mutual funds	**(632)**	(19)	–	**(656)**	430	–
Trading account losses	**(501)**	(79)	–	**(722)**	(93)	–
Other investments	**228**	107	113	**768**	665	15
Total investment income before policyholder income and trading gains (losses)	**4,739**	6,286	(25)	**17,118**	19,921	(14)
Policyholder investment income and trading gains (losses)	**(1,561)**	149	–	**(1,729)**	2,026	–
Total investment income	**3,178**	6,435	(51)	**15,389**	21,947	(30)
Investment expenses	**232**	263	(12)	**761**	798	(5)
Net investment income	**$ 2,946**	$6,172	(52)%	**$14,628**	$21,149	(31)%

Net investment income decreased in the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007 due to losses from partnerships, hedge funds and mutual funds as well as policyholder trading losses and higher trading account losses related to certain investment-oriented products in the U.K. for Life Insurance & Retirement Services. Policyholder trading gains (losses) are offset by a charge or benefit to incurred policy losses and benefits expense. The policyholder trading losses for the three- and nine-month periods ended September 30, 2008 generally reflect the trends in equity markets, principally in Japan and Asia. The decline in net investment income also reflects the effects of higher cash balances for liquidity purposes.

Net Realized Capital Losses

The composition of net realized capital losses was as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Sales of fixed maturity securities	**$ (768)**	$(403)	**$ (778)**	$(572)
Sales of equity securities	**288**	265	**608**	708
Sales of real estate and other assets	**97**	210	**422**	709
Other-than-temporary impairments:				
Severity	**(7,327)**	–	**(16,275)**	–
Lack of intent to hold to recovery	**(8,299)**	(240)	**(9,320)**	(614)
Trading at 25 percent or more discount for nine consecutive months	**–**	–	**–**	(6)
Foreign currency declines	**(50)**	(29)	**(1,084)**	(333)
Issuer-specific credit events	**(3,453)**	(124)	**(3,946)**	(316)
Adverse projected cash flows on structured securities	**(747)**	(151)	**(1,621)**	(159)
Foreign exchange transactions	**1,996**	(361)	**1,258**	(469)
Derivative instruments	**(49)**	(31)	**254**	90
Total	**$(18,312)**	$(864)	**$(30,482)**	$(962)

Net realized capital losses increased in the three- and nine-months ended September 30, 2008 compared to the same periods in 2007 primarily due to an increase in other-than-temporary impairment charges. Other-than-temporary impairment charges included the change in AIG's intent and ability to hold to recovery the securities, held as collateral in the securities lending program; an increase in severity losses primarily related to certain RMBS, other structured securities and securities of financial institutions due to rapid and severe market valuation declines where the impairment period was not deemed temporary; and issuer specific credit events; partially offset by the favorable effect of foreign exchange transactions due to

strengthening of the U.S. dollar. See Invested Assets — Portfolio Review — Other-Than-Temporary Impairments.

Unrealized Market Valuation Losses on AIGFP Super Senior Credit Default Swap Portfolio

The unrealized market valuation losses on AIGFP's super senior credit default swap portfolio in the three- and nine- month periods ended September 30, 2008 increased compared to the same periods in 2007 due to significant widening in credit spreads and the downgrades of RMBS and CDO securities by rating agencies in the three-month period ended September 30, 2008 driven by the credit concerns resulting from U.S. residential mortgages and the severe liquidity crisis affecting the markets. (See Capital Markets Results and Critical Accounting Estimates — Valuation of Level 3 Assets and Liabilities.

Other Income

Other Income decreased in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to a $2.0 billion decrease in Financial Services revenues and a $625 million decrease in Asset Management revenues. Financial Services revenues decreased principally as a result of a net $987 million credit valuation adjustment loss on AIGFP's assets and liabilities which are measured at fair value. AIGFP's revenues were also negatively affected by the disruption in the credit markets and the general decline in liquidity in the marketplace. Asset Management revenues decreased primarily as a result of lower partnership income related to the Spread-Based Investment Business.

Other Income decreased in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to a $1.7 billion decrease in Financial Services revenues and a $1.2 billion decrease in Asset Management revenues. Financial Services revenues decreased principally as a result of a net $1.4 billion credit valuation adjustment loss on AIGFP's assets and liabilities which are measured at fair value. Asset Management revenues decreased primarily as a result of lower guaranteed investment contract revenue due to lower partnership income.

Incurred Policy Losses and Benefits

Incurred policy losses and benefits increased in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to a $1.2 billion increase in Commercial Insurance as a result of $1.1 billion of catastrophe-related losses principally from hurricanes Ike and Gustav in 2008, a $464 million increase in Foreign General Insurance as a result of an increase in frequency of smaller claims and higher catastrophe-related losses primarily from hurricanes Ike and Gustav and a $461 million increase in Mortgage Guaranty reflecting the deterioration of the U.S. housing market. Increases in incurred policy losses and benefits of $1.0 billion in Life Insurance & Retirement Services were more than offset by a reduction in losses and benefits arising from policyholder trading losses of $1.7 billion discussed above in Net Investment Income.

Incurred policy losses and benefits increased in the nine-month period compared to the same period in 2007 primarily due to a $1.6 billion increase in Commercial Insurance as a result of higher catastrophe-related losses principally from hurricanes Ike and Gustav in 2008, a $1.2 billion increase in Foreign General Insurance as a result of higher catastrophe-related losses and severe but non-catastrophic losses, and a $1.4 billion increase in Mortgage Guaranty reflecting the deterioration of the U.S. housing market. Increases in incurred policy losses and benefits of $2.7 billion in Life Insurance & Retirement Services were more than offset by a reduction in losses and benefits arising from policyholder trading losses of $3.8 billion discussed above in Net Investment Income.

Policy Acquisition and Other Insurance Expenses

Policy acquisition and other insurance expenses increased in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to a $785 million increase in General Insurance expenses and a $777 million increase in Life Insurance & Retirement Services expenses. General Insurance expenses increased primarily due to the recognition of a premium deficiency reserve of $453 million related to United Guaranty Corporation's (UGC) second-lien business. Life Insurance & Retirement Services expenses increased principally as a result of the effect of foreign exchange, growth in the business and the effect of FAS 159 implementation.

Policy acquisition and other insurance expenses increased in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to a $1.6 billion increase in General Insurance expenses and a $1.5 billion increase in Life Insurance & Retirement Services expenses. General Insurance expenses increased primarily due to the recognition of a premium deficiency reserve of $453 million related to UGC's second-lien business, a $432 million increase in compensation-related expenses, and a $275 million change in DAC. Life Insurance & Retirement Services expenses increased primarily due to the effect of foreign exchange, growth in the business and the effect of FAS 159 implementation.

Interest Expense

Interest expense increased in the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007 reflecting higher borrowings, including interest on the debt and Equity Units from the dates of issuance in May 2008 and borrowings under the Fed facility. Interest expense also includes amortization of the prepaid commitment assets in connection with the Series C Preferred Stock.

Other Expenses

Other Expenses decreased in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to a $563 million reversal of accrued compensation expense under AIGFP's various deferred compensation plans and special incentive plan as a result of significant losses recognized by AIGFP in 2008. Offsetting this reversal were goodwill impairment charges of $341 million and $91 million related to Consumer Finance and Capital Markets, respectively, recognized in the third quarter 2008, resulting from the downturn in the housing markets, the credit crisis and the intent to unwind certain AIGFP businesses. An increase in AGF's provision for finance receivable losses of $198 million also contributed to the decline.

Other Expenses increased in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily as a result of the goodwill impairment charges mentioned above, an increase in AIGFP's other operating expenses due to professional service fees and an increase in AGF's provision for finance receivable losses of $471 million. Partially offsetting these increases was the reversal of AIGFP deferred compensation and special incentive plan discussed above.

Income Taxes (Benefits)

The effective tax rate on the pre-tax loss for the three-month period ended September 30, 2008 was 12.3 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to $6.9 billion of deferred tax expense recorded during the third quarter, comprising $3.6 billion of deferred tax expense attributable to the potential sale of foreign businesses, and a $3.3 billion valuation allowance to reduce tax benefits on capital losses to the amount that AIG believes is more likely than not to be realized.

The effective tax rate on the pre-tax loss for the nine-month period ended September 30, 2008 was 21.5 percent and was also lower than the statutory rate primarily due to the $6.9 billion of deferred tax expense, which is discussed above, as well as other tax charges recorded.

The effective tax rates on pre-tax income for the three- and nine-month periods ended September 30, 2007 were 30.0 percent and 28.0 percent, respectively. These effective tax rates were lower than the statutory rate due primarily to benefits from remediation adjustments and the recognition of tax benefits associated with the SICO Plan for which the compensation expense was recognized in prior years.

Realization of the deferred tax asset depends on AIG's ability to generate sufficient taxable income of the appropriate character within the carryforward periods of the jurisdictions in which the net operating losses and deductible temporary differences were incurred. AIG assessed its ability to realize the deferred tax asset of $19.1 billion and concluded a $3.3 billion valuation allowance was required to reduce the deferred tax asset to an amount AIG believes is more likely than not to be realized.

When making its assessment, AIG considered future reversals of existing taxable temporary differences, future GAAP taxable income and tax-planning strategies AIG would implement, if necessary, to realize the net deferred tax asset.

In assessing future GAAP taxable income, AIG considered its strong earnings history exclusive of the recent losses on the super senior credit default swap portfolio and from the securities lending program, with respect to which AIG is entering into transactions with the NY Fed to limit exposure to future losses. AIG also considered taxable income from the sales of businesses under its asset disposition plan, the continuing earnings strength of the insurance businesses it intends to retain and its recently announced debt and preferred stock transactions with the NY Fed, together with other actions AIG is taking, when assessing the ability to generate sufficient future taxable income during the relevant carryforward periods to realize the deferred tax asset.

Segment Results

The following table summarizes the operations of each operating segment. (See also Note 2 to the Consolidated Financial Statements.)

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Percentage Increase/ (Decrease)
Total revenues(a)(b)(e):						
General Insurance	**$ 10,808**	$12,758	(15)%	**$ 35,854**	$38,589	(7)%
Life Insurance & Retirement Services	**(4,642)**	12,632	–	**14,271**	40,337	(65)
Financial Services(c)(d)	**(5,851)**	2,785	–	**(16,016)**	7,109	–
Asset Management	**10**	1,519	(99)	**658**	4,969	(87)
Other	**451**	13	–	**531**	407	30
Consolidation and eliminations	**122**	129	–	**(436)**	220	–
Total	**$ 898**	$29,836	(97)%	**$ 34,862**	$91,631	(62)%
Operating income (loss)(a)(b)(e):						
General Insurance	**$ (2,557)**	$ 2,439	–%	**$ (393)**	$ 8,511	–%
Life Insurance & Retirement Services	**(15,329)**	1,999	–	**(19,561)**	6,900	–
Financial Services(c)(d)	**(8,203)**	669	–	**(22,880)**	1,008	–
Asset Management	**(1,144)**	121	–	**(2,709)**	1,806	–
Other	**(1,416)**	(627)	–	**(2,899)**	(1,557)	–
Consolidation and eliminations	**464**	278	–	**237**	711	–
Total	**$(28,185)**	$ 4,879	–%	**$(48,205)**	$17,379	–%

(a) *Includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), including the related foreign exchange gains and losses. For the three-month periods ended September 30, 2008 and 2007, the effect was $1.2 billion and $(178) million, respectively, in both revenues and operating income (loss). For the nine-month periods ended September 30, 2008 and 2007, the effect was $705 million and $(1.1) billion, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.*

(b) *Includes other-than-temporary impairment charges. Refer to Invested Assets — Portfolio Review — Other-Than-Temporary Impairments for further discussion.*

(c) *Includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the three-month periods ended September 30, 2008 and 2007, the effect was $217 million and $353 million, respectively, in both revenues and operating income (loss). For the nine-month periods ended September 30, 2008 and 2007, the effect was $18 million and $(250) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.*

(d) *Includes unrealized market valuation losses of $7.1 billion and $21.7 billion for the three- and nine-month periods ended September 30, 2008, respectively, and $352 million for the three- and nine-month periods ended September 30, 2007, on AIGFP's super senior credit default swap portfolio.*

(e) *To better align financial reporting with the manner in which AIG's chief operating decision maker manages the business, beginning in the third quarter of 2008, AIG's own credit risk valuation adjustments on intercompany transactions are excluded from segment revenues and operating income.*

General Insurance Operations

AIG's General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad and constitute the AIG Property Casualty Group (formerly known as Domestic General Insurance) and the Foreign General Insurance Group.

AIG Property Casualty Group is comprised of Commercial Insurance, Transatlantic, Personal Lines and Mortgage Guaranty businesses.

Commercial Insurance writes substantially all classes of business insurance, accepting such business mainly from insurance brokers. This provides Commercial Insurance the opportunity to select specialized markets and retain underwriting control. Any licensed broker is able to submit business to Commercial Insurance without the traditional agent-company contractual relationship, but such broker usually has no authority to commit Commercial Insurance to accept a risk.

Transatlantic Holdings, Inc. (Transatlantic) subsidiaries offer reinsurance capacity on both a treaty and facultative basis both in the U.S. and abroad. Transatlantic structures programs for a full range of property and casualty products with an emphasis on specialty risk.

AIG's Personal Lines operations provide automobile insurance through aigdirect.com, its direct marketing distribution channel, and the Agency Auto Division, its independent agent/broker distribution channel. It also provides a broad range of coverages for high net worth individuals through the AIG Private Client Group (Private Client Group). Coverages for the Personal Lines operations are written predominantly in the United States.

The main business of the subsidiaries of UGC is the issuance of residential mortgage guaranty insurance, both domestically and internationally, that covers the first loss for credit defaults on high loan-to-value conventional first-lien mortgages for the purchase or refinance of one to four family residences.

On September 15, 2008, United Guaranty Residential Insurance Company (UGRIC) and United Guaranty Mortgage Indemnity Company (UGMIC) were downgraded from AA+ to A+ by S&P. As a result of the downgrade below the AA- level, the companies were required to submit a remediation plan to Fannie Mae and Freddie Mac. All U.S. based mortgage insurers are currently subject to a Government Sponsored Enterprise (GSE) remediation plan as a result of industry-wide rating agency downgrades. UGC's plan was timely submitted and is awaiting GSE approval. UGRIC and UGMIC continue to write new domestic first-lien mortgage insurance and remain as eligible mortgage insurers with Fannie Mae and Freddie Mac.

AIG's Foreign General Insurance Group writes both commercial and consumer lines of insurance which is primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance companies. The Foreign General Insurance Group also includes business written by AIG's foreign-based insurance subsidiaries.

General Insurance Results

General Insurance operating income is comprised of statutory underwriting profit (loss), changes in DAC, net investment income and net realized capital gains and losses. Operating income (loss), as well as net premiums written, net premiums earned, net investment income and net realized capital gains (losses) and statutory ratios were as follows:

	Three Months Ended September 30,		Percentage Increase/	Nine Months Ended September 30,		Percentage Increase/
(in millions, except ratios)	**2008**	2007	(Decrease)	**2008**	2007	(Decrease)
Net premiums written:						
AIG Property Casualty Group						
Commercial Insurance	**$ 5,597**	$ 6,012	(7)%	**$16,698**	$18,460	(10)%
Transatlantic	**1,094**	985	11	**3,118**	2,952	6
Personal Lines	**1,108**	1,253	(12)	**3,626**	3,685	(2)
Mortgage Guaranty	**280**	303	(8)	**872**	841	4
Foreign General Insurance	**3,647**	3,270	12	**11,712**	10,130	16
Total	**$11,726**	$11,823	(1)%	**$36,026**	$36,068	–%
Net premiums earned:						
AIG Property Casualty Group						
Commercial Insurance	**$ 5,735**	$ 5,942	(3)%	**$17,064**	$17,919	(5)%
Transatlantic	**1,027**	960	7	**3,067**	2,873	7
Personal Lines	**1,183**	1,193	(1)	**3,591**	3,516	2
Mortgage Guaranty	**254**	226	12	**779**	657	19
Foreign General Insurance	**3,532**	3,112	13	**10,740**	9,050	19
Total	**$11,731**	$11,433	3%	**$35,241**	$34,015	4%
Net investment income:						
AIG Property Casualty Group						
Commercial Insurance	**$ 512**	$ 854	(40)%	**$ 1,842**	$ 2,871	(36)%
Transatlantic	**111**	113	(2)	**348**	348	–
Personal Lines	**53**	59	(10)	**166**	173	(4)
Mortgage Guaranty	**48**	42	14	**136**	118	15
Foreign General Insurance	**5**	325	(99)	**604**	1,071	(44)
Reclassifications and eliminations	**6**	1	–	**11**	4	175
Total	**$ 735**	$ 1,394	(47)%	**$ 3,107**	$ 4,585	(32)%
Net realized capital gains (losses)	**$ (1,658)**	$ (69)	–%	**$ (2,494)**	$ (11)	–%
Operating income (loss):						
AIG Property Casualty Group						
Commercial Insurance	**$ (1,109)**	$ 1,829	–%	**$ 57**	$ 5,662	(99)%
Transatlantic	**(155)**	189	–	**148**	508	(71)
Personal Lines	**23**	28	(18)	**47**	252	(81)
Mortgage Guaranty	**(1,118)**	(216)	–	**(1,990)**	(289)	–
Foreign General Insurance	**(209)**	607	–	**1,323**	2,383	(44)
Reclassifications and eliminations	**11**	2	450	**22**	(5)	–
Total	**$ (2,557)**	$ 2,439	–%	**$ (393)**	$ 8,511	–%
Statutory underwriting profit (loss)*(b)*:						
AIG Property Casualty Group						
Commercial Insurance	**$ (426)**	$ 1,014	–%	**$ 149**	$ 2,744	(95)%
Transatlantic	**(96)**	53	–	**24**	106	(77)
Personal Lines	**9**	(40)	–	**(96)**	49	–
Mortgage Guaranty	**(1,155)**	(270)	–	**(2,126)**	(438)	–
Foreign General Insurance	**74**	266	(72)	**881**	1,039	(15)
Total	**$ (1,594)**	$ 1,023	–%	**$ (1,168)**	$ 3,500	–%
AIG Property Casualty Group:						
Loss Ratio	**92.2**	69.2		**83.8**	68.8	
Expense Ratio	**28.6**	21.1		**24.7**	20.5	
Combined Ratio	**120.8**	90.3		**108.5**	89.3	
Foreign General Insurance:						
Loss Ratio	**59.3**	52.4		**54.9**	51.7	
Expense Ratio*(a)*	**37.4**	37.1		**33.8**	32.9	
Combined ratio	**96.7**	89.5		**88.7**	84.6	
Consolidated:						
Loss Ratio	**82.3**	64.7		**75.0**	64.3	
Expense Ratio	**31.3**	25.5		**27.7**	24.0	
Combined Ratio	**113.6**	90.2		**102.7**	88.3	

(a) Includes amortization of advertising costs.

(b) Statutory underwriting profit (loss) is a measure that U.S. domiciled insurance companies are required to report to their regulatory authorities. The following table reconciles statutory underwriting profit (loss) to operating income (loss) for General Insurance:

(in millions)	Commercial Insurance	Transatlantic	Personal Lines	Mortgage Guaranty	Foreign General Insurance	Reclassifications and Eliminations	Total
Three Months Ended September 30, 2008:							
Statutory underwriting profit (loss)	**$ (426)**	**$ (96)**	**$ 9**	**$(1,155)**	**$ 74**	$ –	**$(1,594)**
Increase (decrease) in DAC	**(53)**	**7**	**(10)**	**(9)**	**25**	–	**(40)**
Net investment income	**512**	**111**	**53**	**48**	**5**	**6**	**735**
Net realized capital gains (losses)	**(1,142)**	**(177)**	**(29)**	**(2)**	**(313)**	**5**	**(1,658)**
Operating income (loss)	**$(1,109)**	**$(155)**	**$ 23**	**$(1,118)**	**$ (209)**	**$11**	**$(2,557)**
Three Months Ended September 30, 2007:							
Statutory underwriting profit (loss)	$ 1,014	$ 53	$ (40)	$ (270)	$ 266	$ –	$ 1,023
Increase (decrease) in DAC	21	8	9	13	40	–	91
Net investment income	854	113	59	42	325	1	1,394
Net realized capital gains (losses)	(60)	15	–	(1)	(24)	1	(69)
Operating income (loss)	$ 1,829	$ 189	$ 28	$ (216)	$ 607	$ 2	$ 2,439
Nine Months Ended September 30, 2008:							
Statutory underwriting profit (loss)	**$ 149**	**$ 24**	**$ (96)**	**$(2,126)**	**$ 881**	$ –	**$(1,168)**
Increase (decrease) in DAC	**(57)**	**8**	**16**	**4**	**191**	–	**162**
Net investment income	**1,842**	**348**	**166**	**136**	**604**	**11**	**3,107**
Net realized capital gains (losses)	**(1,877)**	**(232)**	**(39)**	**(4)**	**(353)**	**11**	**(2,494)**
Operating income (loss)	**$ 57**	**$ 148**	**$ 47**	**$(1,990)**	**$1,323**	**$22**	**$ (393)**
Nine Months Ended September 30, 2007:							
Statutory underwriting profit (loss)	$ 2,744	$ 106	$ 49	$ (438)	$1,039	$ –	$ 3,500
Increase (decrease) in DAC	106	22	31	34	244	–	437
Net investment income	2,871	348	173	118	1,071	4	4,585
Net realized capital gains (losses)	(59)	32	(1)	(3)	29	(9)	(11)
Operating income (loss)	$ 5,662	$ 508	$252	$ (289)	$2,383	$ (5)	$ 8,511

AIG transacts business in most major foreign currencies. The effects of changes in foreign currency exchange rates on the growth of General Insurance net premiums written were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Growth in original currency*	**(2.9)%**	4.3%	**(2.8)%**	4.6%
Foreign exchange effect	**2.1**	1.0	**2.7**	1.1
Growth as reported in U.S. dollars	**(0.8)%**	5.3%	**(0.1)%**	5.7%

* *Computed using a constant exchange rate throughout each period.*

Quarterly General Insurance Results

General Insurance reported an operating loss in the three-month period ended September 30, 2008 compared to operating income in the same period in 2007 due to declines in underwriting results and net investment income as well as increased net realized capital losses in the three month-period ended September 30, 2008. The combined ratio for the three-month period ended September 30, 2008 increased to 113.6, an increase of 23.4 points compared to the same period in 2007, primarily due to an increase in the loss ratio of 17.6 points. The loss ratio for accident year 2008 recorded in the three-month period ended September 30, 2008 was 15.7 points higher than the loss ratio recorded in the three-month period ended September 30, 2007 for accident year 2007. Catastrophe related losses (primarily from hurricanes Ike and Gustav in 2008) were $1.4 billion in the three-month period ended September, 30, 2008, accounting for 11.6 points of the increase in the accident year loss ratio. Increases in first-lien Mortgage Guaranty losses accounted for 2.6 points of the increase in the 2008 accident year loss ratio. AIG expects that the downward cycle in the U.S. housing market will continue to adversely affect Mortgage Guaranty's loss ratios for the foreseeable future. The loss ratio also increased for other property and casualty lines due to premium rate decreases and changes in loss trends. Favorable prior year development and increases in the loss reserve discount reduced incurred losses by $169 million and $377 million in the three-month periods ended September 30, 2008 and 2007, respectively, accounting for 1.9 points of the increase in the loss ratio.

General Insurance net premiums written declined 0.8 percent in the three-month period ended September 30, 2008 compared to the same period in 2007, as a decline in AIG Property Casualty Group was partially offset by growth in Foreign General Insurance from both established and new distribution channels, and the positive effect of changes in foreign currency exchange rates.

General Insurance net investment income declined in the three-month period ended September 30, 2008 by $659 million or approximately 47 percent compared to the same period in 2007. Interest and dividend income increased $17 million in the three-month period ended September 30, 2008 compared to the

same period in 2007 as investments in fixed maturities and equity securities increased by $3.2 billion and the average yield was substantially unchanged for both periods. Partnership and mutual fund investment results were losses of $512 million in the three-month period ended September 30, 2008 compared to income of $241 million in the same period in 2007, primarily due to weaker equity market performance in 2008.

Net realized capital losses in the three-month period ended September 30, 2008 include other-than-temporary impairment charges of $1.8 billion principally on fixed maturity securities compared to $35 million in the same period of 2007. See also Capital Resources and Liquidity and Invested Assets herein.

Year-to-Date General Insurance Results

General Insurance reported an operating loss in the nine-month period ended September 30, 2008 compared to the same period in 2007 due to declines in underwriting results and net investment income as well as net realized capital losses in the nine month-period ended September 30, 2008 compared to net realized capital gains in the same period in 2007. The combined ratio for the nine-month period ended September 30, 2008, increased to 102.7, an increase of 14.4 points compared to the same period in 2007, primarily due to an increase in the loss ratio of 10.8 points. The loss ratio for accident year 2008 recorded in the nine-month period ended September 30, 2008 was 9.4 points higher than the loss ratio recorded in the nine-month period ended September 30, 2007 for accident year 2007. Catastrophe-related losses were $1.5 billion and $101 million in the nine-month periods ended September, 30, 2008, and 2007, respectively, accounting for 4.1 points of the increase in the accident loss ratio. Increases in Mortgage Guaranty losses accounted for 3.0 points of the increase in the 2008 accident year loss ratio. The loss ratio also increased for other property and casualty lines due to premium rate decreases and changes in loss trends. Favorable development from prior years and increases in the loss reserve discount reduced incurred losses by $254 million and $720 million in the nine-month periods ended September 30, 2008 and 2007, respectively. The favorable development in the nine-month period ended September 30, 2008 includes $339 million of favorable development recognized in the first three months of 2008, related to policies whose premiums vary with the level of losses incurred (loss sensitive policies). Loss sensitive policies did not have a significant effect in 2007. The favorable development on loss sensitive policies had no effect on underwriting profit as it was entirely offset by a reduction in earned premiums.

General Insurance net premiums written were essentially unchanged in the nine-month period ended September 30, 2008 compared to the same period in 2007, as a decline in Commercial Insurance rates was almost entirely offset by growth in Foreign General Insurance from both established and new distribution channels and the positive effect of changes in foreign currency exchange rates.

General Insurance net investment income declined in the nine-month period ended September 30, 2008 by $1.5 billion or approximately 32 percent compared to the same period in 2007. Interest and dividend income increased $186 million in the nine-month period ended September 30, 2008 compared to the same period in 2007 as investment in fixed maturities and equity securities increased by $4.5 billion and the average yield was substantially unchanged for both periods. Partnership and mutual fund investment results were losses of $496 million in the nine-month period ended September 30, 2008 compared to income of $1.2 billion in the same period in 2007, primarily due to poor performance in the equity markets in 2008. Investment expenses declined $64 million in the nine-month period ended September 30, 2008 compared to the same period in 2007, primarily due to decreased interest expense on deposit liabilities.

Net realized capital losses in the nine-month period ended September 30, 2008 were driven by other-than-temporary impairment charges of $2.7 billion compared to $165 million in the same period of 2007. See also Capital Resources and Liquidity and Invested Assets herein.

Quarterly Commercial Insurance Results

Commercial Insurance reported an operating loss of $1.1 billion in the three-month period ended September 30, 2008 compared to operating income of $1.8 billion in the same period in 2007, reflecting both underwriting losses and reduced net investment income as well as increased net realized capital losses in the three-month period ended September 30, 2008. The decline in underwriting results is also reflected in the combined ratio, which increased 25.2 points in the three-month period ended September 30, 2008 compared to the same period in 2007. The loss ratio for accident year 2008, recorded in the three-month period ended September 30, 2008 was 19.8 points higher than the loss ratio recorded in the three-month period ended September 30, 2007 for accident year 2007. The increase in the 2008 accident year loss ratio includes 18.8 points for losses related to the hurricanes with the remaining increase due to higher casualty losses and the effect of premium rate declines. Favorable prior year development and increases in the reserve discount decreased incurred losses by $181 million and $353 million in the three-month periods ended September 30, 2008 and 2007, respectively, accounting for 2.8 points of the increase in the loss ratio. Commercial Insurance's net premiums written declined in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to declines in workers' compensation premiums and other casualty lines of business.

Commercial Insurance's expense ratio increased to 21.9 in the three-month period ended September 30, 2008 compared to 19.2 in the same period of 2007. Provision for uncollectible premiums increased by $82 million in the three-month period ended September 30, 2008 compared to the same period in 2007. In general, net premiums written

increased in lines of business with higher expense ratios and lower loss ratios compared to other Commercial Insurance lines of business, contributing to the increase in the expense ratio for the three-month period ended September 30, 2008 compared to the same period in 2007.

Commercial Insurance's net investment income declined in the three-month period ended September 30, 2008 compared to the same period in 2007, primarily due to losses of $230 million from partnership and mutual fund investments in the three-month period ended September 30, 2008 compared to income of $219 million in the same period in 2007.

Commercial Insurance recorded net realized capital losses of $1.1 billion in the three-month period ended September 30, 2008 compared to net realized capital losses of $60 million in the same period of 2007, primarily due to other-than-temporary impairment charges of $1.2 billion in the three-month period ended September 30, 2008 compared to charges of $26 million in the same period in 2007, principally related to fixed maturity securities.

Year-to-Date Commercial Insurance Results

Commercial Insurance's operating income decreased 99 percent in the nine-month period ended September 30, 2008 compared to the same period in 2007, primarily due to significant declines in underwriting results and net investment income, as well as significantly greater net realized capital losses in the nine-month period ended September 30, 2008. The decline in underwriting results is also reflected in the combined ratio, which increased 15.5 points in the nine-month period ended September 30, 2008 compared to the same period in 2007. The loss ratio for accident year 2008 recorded in the nine-month period ended September 30, 2008 included a 7.2 point effect related to the catastrophe losses, and was 11.1 points higher than the loss ratio recorded in the nine-month period ended September 30, 2007 for accident year 2007. Prior year development and increases in the loss reserve discount reduced incurred losses by $373 million and $630 million in the nine-month periods ended September 30, 2008 and 2007, respectively.

Commercial Insurance's net premiums written declined in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to declines in premiums from workers' compensation and other casualty lines of business including a reduction of $339 million related to loss sensitive policies as described above.

Commercial Insurance's expense ratio increased to 21.7 in the nine-month period ended September 30, 2008 compared to 18.6 in the same period of 2007. Return premiums on loss sensitive policies reduced net premiums written, without a corresponding reduction in expenses, increasing the expense ratio by 0.5 points for the nine-month period ended September 30, 2008 compared to the same period in 2007. The remaining increase in the expense ratio primarily resulted from changes in property reinsurance programs, increases in the provision for uncollectible premiums and changes in the mix of business as discussed above.

Commercial Insurance's net investment income declined significantly in the nine-month period ended September 30, 2008 compared to the same period in 2007, primarily due to a loss of $273 million from partnership and mutual fund investments in the nine-month period ended September 30, 2008 compared to a gain of $875 million in the same period in 2007.

Commercial Insurance recorded net realized capital losses of $1.9 billion in the nine-month period ended September 30, 2008 compared to net realized capital losses of $59 million in the same period in 2007, primarily due to other-than-temporary impairment charges of $2.0 billion in the nine-month period ended September 30, 2008, related to both fixed maturity and equity securities, compared to $139 million in the same period in 2007.

Quarterly Transatlantic Results

Transatlantic reported an operating loss of $155 million in the three-month period ended September 30, 2008 compared to income of $189 million in the same period in 2007, primarily due to a significant increase in net realized capital losses and a statutory underwriting loss. The increase in net realized capital losses is due principally to other-than-temporary impairment charges of $144 million. The statutory underwriting loss in the three-month period ended September 30, 2008 compared to the gain in the same period in 2007 reflects increased catastrophe losses resulting principally from hurricane Ike.

Year-to-Date Transatlantic Results

Transatlantic's operating income decreased to $148 million in the nine-month period ended September 30, 2008 compared to $508 million in the same period in 2007, primarily due to an increase in net realized capital losses and a decrease in statutory underwriting profit. The increase in net realized capital losses is due principally to other-than-temporary impairment charges of $202 million. The decrease in statutory underwriting profit in the nine-month period ended September 30, 2008 compared to the same period in 2007 reflects increased catastrophe losses resulting principally from hurricane Ike.

Quarterly Personal Lines Results

Personal Lines operating income decreased in the three-month period ended September 30, 2008 compared to the same period in 2007, primarily due to a decline in net investment income and other-than-temporary impairment charges related to the ongoing turmoil in the financial markets, which more than offset an improvement in statutory underwriting results.

Net premiums written decreased in the three-month period ended September 30, 2008 compared to the same period in 2007, primarily due to continued growth in the Private Client Group, offset by reductions in both the

aigdirect.com and Agency Auto businesses. The growth in the Private Client Group reflects the execution of a plan to expand its distribution network.

Year-to-Date Personal Lines Results

Personal Lines operating income decreased in the nine-month period ended September 30, 2008 compared to the same period in 2007, primarily due to a decline in statutory underwriting profit and other-than-temporary impairment charges.

Quarterly Mortgage Guaranty Results

In response to the worsening market conditions during the last several quarters, UGC has tightened underwriting standards and increased premium rates for its first- and second-lien business. As the credit markets tightened the second-lien business has seen a significant decline in activity and, combined with UGC's tightened underwriting standards, new business written for second-liens has dropped significantly. As a result of the decline in new business and in conjunction with the increasing loss experience UGC decided to withdraw from the second-lien market, cease selling new business and place its second-lien portfolio into run-off as of September 30, 2008.

Mortgage Guaranty's operating loss increased significantly in the three-month period ended September 30, 2008 compared to the same period in 2007 due to tightening credit markets, declining housing values and the recognition of a premium deficiency reserve on second-lien business.

Net premiums written declined by 8 percent to $280 million in the three-month period ended September 30, 2008 compared to the same period in 2007, primarily due to declines in private student loans and international mortgage businesses of 77 percent and 30 percent, respectively, primarily due to tightened underwriting standards. First-and second-lien business grew moderately due to increased persistency year over year. However, new insurance written, which is a measure of the amount of new insurance added to the portfolio, during the three-month period ended September 30, 2008 decreased 77 percent and 97 percent, respectively, when compared to the same period in 2007. This decline is primarily due to UGC's tightening of underwriting guidelines and rate increases during the period.

Losses and loss expenses incurred increased $461 million over the same period in 2007, driven by domestic first- and second-lien business due to the continuing decline in the domestic housing market. Domestic first- and second-lien losses incurred increased 189 percent and 35 percent respectively, compared to the same period in 2007, resulting in a loss ratio for the first-lien business of 308.1 in the three-month period ended September 30, 2008. Increases in both domestic and international losses incurred resulted in an overall loss ratio for Mortgage Guaranty (excluding in 2008 the second-lien business in run-off) of 279.4 in the three-month period ended September 30, 2008 compared to 197.0 in the same period in 2007. Limits on certain ceded reinsurance covering the domestic first lien business may result in increased net losses in future periods, if the current housing market decline continues.

Historically, Mortgage Guaranty included all mortgage insurance risks in a single premium deficiency test because the manner of acquiring, servicing and measuring the profitability of all Mortgage Guaranty contracts was consistent. With the decision to place the second-lien business in run-off, management no longer measures the profitability for the second-lien business in the same manner as that for Mortgage Guaranty's ongoing businesses, and will no longer report loss ratio or expense ratio information for the second-lien business. As a result, UGC performed a separate premium deficiency calculation for the second lien business as of September 30, 2008.

At September 30, 2008, the present value of expected second-lien future losses and expenses (net of expected future recoveries) was $1.6 billion, offset by the present value of expected second-lien future premium of $499 million and the already established loss reserves of $727 million, resulting in a premium deficiency reserve of $453 million. The second-lien risk in force at September 30, 2008 totaled $3.1 billion with 550 thousand second-lien policies in force, expected to run-off over the next 10 to 12 years. Risk in force represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Mortgage Guaranty may record net losses on this business in future periods because the timing of future delinquencies may precede recognition of future premiums, in an amount in excess of the premium deficiency reserve.

As of September 30, 2008 there was no premium deficiency related to the remainder of the Mortgage Guaranty business.

Year-to-Date Mortgage Guaranty Results

Mortgage Guaranty's operating loss in the nine-month period ended September 30, 2008 increased significantly compared to the same period in 2007 due to deteriorating housing markets throughout the United States as well as in several international markets, a tightening domestic credit market and the premium deficiency reserve discussed above. Net premiums written increased 4 percent in the nine-month period ended September 30, 2008 compared to the same period in 2007, primarily due to increases in domestic first-and second-lien premiums during the first half of 2008, partially offset by declines in net premiums written in private student loans and international mortgage insurance businesses. Net premiums written for first-and second-lien businesses increased 22 percent and 14 percent, respectively, in the nine-month period ended September 30, 2008 compared to the same period in 2007, due mainly to increased persistency

year over year. Net premiums written for international mortgage insurance business declined 20 percent, primarily due to tightened underwriting standards. During the nine-month period in 2008, net premiums written have steadily declined due to UGC's steady tightening of underwriting guidelines and rate increases during the year. New insurance written during the nine-month period ended September 30, 2008 decreased 31 percent and 78 percent for first and second-lien business, respectively, when compared to the same period in 2007.

Domestic first- and second-lien losses incurred increased 247 percent and 75 percent, respectively, compared to the nine-month period ended September 30, 2007, resulting in a first-lien loss ratio of 255.3 in the nine-month period ended September 30, 2008. Increases in domestic and international losses incurred resulted in an overall loss ratio for Mortgage Guaranty (excluding in 2008 the second-lien business in run-off) of 225.0 in the nine-month period ended September 30, 2008, compared to 140.9 in the nine-month period ended September 30, 2007.

Quarterly Foreign General Insurance Results

Foreign General Insurance incurred an operating loss of $209 million in the three-month period ended September 30, 2008 compared to operating income of $607 million in the same period in 2007. The loss was due to a decline of $320 million in net investment income and an increase of $289 million in net realized capital losses, as well as a decrease in underwriting results, mainly due to catastrophe losses.

Net premiums written increased 12 percent (4 percent in original currency) in the three-month period ended September 30, 2008 compared to the same period in 2007, reflecting growth in commercial and consumer lines driven by new business from both established and new distribution channels, including the late 2007 acquisition of Württembergische und Badische Versicherungs – AG (WüBa) in Germany. Net premiums written for commercial lines increased due to new business, mainly in the U.K. and European markets, and decreases in the use of reinsurance, partially offset by declines in premium rates. Net premiums written for the Lloyd's syndicate and Aviation declined due to rate decreases, increased market competition and an increase in the use of reinsurance.

The loss ratio in the three-month period ended September 30, 2008 increased 6.9 points compared to the same period in 2007, primarily due to higher catastrophe losses and an increase in frequency of smaller claims partially offset by a reduction in severe but non-catastrophe losses. Catastrophe losses in Ascot from Hurricanes Ike and Gustav totaled $133 million for the three months ended September 30, 2008 and contributed 2.8 points to the increase in the loss ratio. In addition, higher claims frequency contributed 4.5 points to the loss ratio, which was partially offset by declines in severe but non-catastrophe losses.

Net investment income decreased $320 million or 99 percent in the three-month period ended September 30, 2008 compared to the same period in 2007 as continued weakness in the equity markets led to losses from partnership and mutual fund investments which collectively increased $296 million from the same period in 2007.

Foreign General Insurance net realized capital losses for the three-month period ended September 30, 2008 were $313 million compared to net realized capital losses of $24 million in the same period of 2007, primarily due to other-than-temporary impairment charges, which amounted to $433 million for the three-month period ended September 30, 2008, compared to $5 million in the same period in 2007.

Year-to-Date Foreign General Insurance Results

Foreign General Insurance operating income decreased in the nine-month period ended September 30, 2008 compared to the same period in 2007, due to net realized capital losses, decreases in underwriting results and net investment income.

Net premiums written increased 16 percent (7 percent in original currency) in the nine-month period ended September 30, 2008 compared to the same period in 2007, reflecting growth in commercial and consumer lines driven by new business from established and new distribution channels, including the WüBa acquisition. Net premiums written for commercial lines increased due to new business in the U.K. and Europe and decreases in the use of reinsurance, partially offset by declines in premium rates. Growth in personal accident business in Latin America, Asia and Europe also contributed to the increase. Net premiums written for the Lloyd's syndicate Ascot continued to decline due to rate decreases and increased market competition.

The loss ratio in the nine-month period ended September 30, 2008 increased 3.2 points compared to the same period in 2007 due to increases in catastrophe losses, frequency of smaller claims and severe but non-catastrophic losses. Catastrophe losses including Hurricanes Ike and Gustav totaled $138 million for the nine months ended September 30, 2008 compared to $91 million of U.K. flood losses in the same period in the prior year, which contributed 0.2 points to the increase in the loss ratio. Prior accident year development reduced incurred losses by $65 million and $108 million in the first nine months of 2008 and 2007, respectively, accounting for 0.6 points of the increase. The current accident year loss ratio excluding catastrophe losses increased by 2.4 points primarily due to increases in severe but non-catastrophic losses and the frequency of smaller claims.

Net investment income decreased $467 million in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to mutual fund income which was $361 million lower than the same period of 2007, reflecting weaker performance in the equity markets in 2008.

Foreign General Insurance net realized capital losses for the nine-month period ended September 30, 2008 were $353 million compared to net realized capital gains of $29 million in the same period of 2007, primarily due to other-than-temporary impairment charges, which amounted to $433 million for the nine-month period ended September 30, 2008, compared to $16 million in the same period in 2007.

Reserve for Losses and Loss Expenses

The following table presents the components of the General Insurance gross reserve for losses and loss expenses (loss reserves) by major lines of business on a statutory Annual Statement basis*:

(in millions)	September 30, 2008	December 31, 2007
Other liability occurrence	**$21,311**	$20,580
Workers' compensation	**15,242**	15,568
Other liability claims made	**13,802**	13,878
International	**8,452**	7,036
Auto liability	**6,211**	6,068
Property	**5,933**	4,274
Reinsurance	**3,610**	3,127
Products liability	**2,462**	2,416
Medical malpractice	**2,315**	2,361
Mortgage guaranty/credit	**2,779**	1,426
Accident and health	**1,783**	1,818
Commercial multiple peril	**1,796**	1,900
Aircraft	**1,705**	1,623
Fidelity/surety	**1,216**	1,222
Other	**2,260**	2,203
Total	**$90,877**	$85,500

* *Presented by lines of business pursuant to statutory reporting requirements as prescribed by the National Association of Insurance Commissioners.*

AIG's gross reserve for losses and loss expenses represents the accumulation of estimates of ultimate losses, including estimates for incurred but not yet reported reserves (IBNR) and loss expenses. The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are currently reflected in operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

Estimates for mortgage guaranty insurance losses and loss adjustment expense reserves are based on notices of mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. Mortgage Guaranty establishes reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon past experience regarding certain loan factors such as age of the delinquency, cure rates, dollar amount of the loan and type of mortgage loan. Because mortgage delinquencies and claims payments are affected primarily by macroeconomic events, such as changes in home price appreciation or depreciation, interest rates and unemployment, the determination of the ultimate loss cost requires a high degree of judgment. AIG believes it has provided appropriate reserves for currently delinquent loans. Consistent with industry practice, AIG does not establish a reserve for insured loans that are not currently delinquent, but that may become delinquent in future periods.

At September 30, 2008, General Insurance net loss reserves increased $4.47 billion from the prior year-end to $73.75 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance and applicable discount for future investment income.

The following table classifies the components of the General Insurance net loss reserve by business unit:

(in millions)	September 30, 2008	December 31, 2007
Commercial Insurance(a)	**$49,240**	$47,392
Transatlantic	**7,537**	6,900
Personal Lines(b)	**2,472**	2,417
Mortgage Guaranty	**2,545**	1,339
Foreign General Insurance(c)	**11,959**	11,240
Total Net Loss Reserve	**$73,753**	$69,288

(a) At September 30, 2008 and December 31, 2007, Commercial Insurance loss reserves include approximately $2.78 billion and $3.13 billion, respectively, ($2.96 billion and $3.34 billion, respectively, before discount), related to business written by Commercial Insurance but ceded to American International Reinsurance Company Limited (AIRCO) and reported in AIRCO's statutory filings. Commercial Insurance loss reserves also include approximately $601 million and $590 million related to business

included in AIUO's statutory filings at September 30, 2008 and December 31, 2007, respectively.

(b) At September 30, 2008 and December 31, 2007, Personal Lines loss reserves include approximately $1.07 billion and $894 million, respectively, related to business ceded to Commercial Insurance and reported in Commercial Insurance's statutory filings.

(c) At September 30, 2008 and December 31, 2007, Foreign General Insurance loss reserves include approximately $2.02 billion and $3.02 billion, respectively, related to business reported in Commercial Insurance's statutory filings.

The Commercial Insurance net loss reserve is comprised principally of the business of AIG subsidiaries participating in American Home/National Union pool (10 companies) and the surplus lines pool (Lexington Insurance Company, AIG Excess Liability Insurance Company and Landmark Insurance Company).

Commercial Insurance cedes a quota share percentage of its other liability occurrence and products liability occurrence business to AIRCO. The quota share percentage ceded was 10 percent in the nine-month period ended 2008 and 15 percent in 2007 and covered all business written in these years for these lines by participants in the American Home/National Union pool. AIRCO's loss reserves relating to these quota share cessions from Commercial Insurance are recorded on a discounted basis. As of September 30, 2008, AIRCO carried a discount of approximately $180 million applicable to the $2.96 billion in undiscounted reserves it assumed from the American Home/National Union pool via this quota share cession. AIRCO also carries approximately $499 million in net loss reserves relating to Foreign General Insurance business. These reserves are carried on an undiscounted basis.

The companies participating in the American Home/National Union pool have maintained a participation in the business written by AIU for decades. As of September 30, 2008, these AIU reserves carried by participants in the American Home/National Union pool totaled approximately $2.02 billion. The remaining Foreign General Insurance reserves are carried by American International Underwriter Overseas, Ltd. (AIUO), AIRCO, AIG U.K., and other smaller AIG subsidiaries domiciled outside the United States. Statutory filings in the United States by AIG companies reflect the business written by U.S. domiciled entities only, and therefore exclude business written by AIUO, AIRCO, and all other internationally domiciled subsidiaries. The total reserves carried at September 30, 2008 by AIUO and AIRCO were approximately $3.60 billion and $3.28 billion, respectively. AIRCO's $3.28 billion in total General Insurance reserves consist of approximately $2.78 billion from business assumed from the American Home/National Union pool and an additional $499 million relating to Foreign General Insurance business.

Discounting of Reserves

At September 30, 2008, AIG's overall General Insurance net loss reserves reflect a loss reserve discount of $2.50 billion, including tabular and non-tabular calculations. The tabular workers compensation discount is calculated using a 3.5 percent interest rate and the 1979-81 Decennial Mortality Table. The non-tabular workers compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies' own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the yield of United States Treasury securities ranging from one to twenty years and the companies' own payout patterns, with the future expected payment for each year using the interest rate associated with the corresponding Treasury security yield for that time period. The discount is comprised of the following: $794 million — tabular discount for workers' compensation in Commercial Insurance; $1.53 billion — non-tabular discount for workers' compensation in Commercial Insurance; and $180 million — non-tabular discount for other liability occurrence and products liability occurrence in AIRCO. The total undiscounted workers' compensation loss reserve carried by Commercial Insurance is approximately $13.5 billion as of September 30, 2008. The other liability occurrence and products liability occurrence business in AIRCO that is assumed from Commercial Insurance is discounted based on the yield of United States Treasury securities ranging from one to twenty years and the Commercial Insurance payout pattern for this business. The undiscounted reserves assumed by AIRCO from Commercial Insurance totaled approximately $2.96 billion at September 30, 2008.

Quarterly Reserving Process

AIG believes that the General Insurance net loss reserves are adequate to cover General Insurance net losses and loss expenses as of September 30, 2008. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's loss reserves as of September 30, 2008. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG's consolidated financial condition, although it could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period.

The reconciliation of net loss reserves was as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Net reserve for losses and loss expenses at beginning of period	**$ 72,331**	$ 65,197	**$ 69,288**	$ 62,630
Foreign exchange effect	**(765)**	224	**(502)**	438
Losses and loss expenses incurred:				
Current year	**9,723**	7,636	**26,364**	22,185
Prior years, other than accretion of discount	**(144)**	(337)	**(215)**	(605)
Prior years, accretion of discount	**79**	92	**255**	220
Losses and loss expenses incurred	**9,658**	7,391	**26,404**	21,800
Losses and loss expenses paid	**7,471**	5,875	**21,437**	17,931
Net reserve for losses and loss expenses at end of period	**$ 73,753**	$ 66,937	**$ 73,753**	$ 66,937

The following tables summarize development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years (other than accretion of discount):

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Prior Accident Year Development by Reporting Unit:				
Commercial Insurance	**$ (156)**	$ (313)	**$ (298)**	$ (465)
Personal Lines	**(9)**	32	**56**	(29)
Mortgage Guaranty	**69**	(27)	**127**	–
Foreign General Insurance	**(49)**	(40)	**(65)**	(108)
Subtotal	**(145)**	(348)	**(180)**	(602)
Transatlantic	**1**	11	**2**	47
Asbestos settlements	**–**	–	**(37)**	(50)
Prior years, other than accretion of discount	**$ (144)**	$ (337)	**$ (215)**	$ (605)

(in millions)	Calendar Year 2008	2007
Prior Accident Year Development by Accident Year:		
2007	**$ (259)**	
2006	**(388)**	$ (898)
2005	**(396)**	(373)
2004	**(269)**	(248)
2003	**66**	143
2002	**78**	200
2001 and prior	**953**	571
Prior years, other than accretion of discount	**$ (215)**	$ (605)

In determining the quarterly loss development from prior accident years, AIG conducts analyses to determine the change in estimated ultimate loss for each accident year for each profit center. For example, if loss emergence for a profit center is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that profit center. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the profit center's reserves for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable, than the difference between the actual and expected loss emergence. Such additional analyses were conducted for each profit center, as appropriate, in the three-month period ended September 30, 2008 to determine the loss development from prior accident years for the three-month period ended September 30, 2008. As part of its quarterly reserving process, AIG also considers notices of claims received with respect to emerging issues, such as those related to the U.S. mortgage and housing market.

2008 Net Loss Development

In the three-month period ended September 30, 2008, net loss development from prior accident years was favorable by approximately $144 million, excluding approximately $79 million from accretion of loss reserve discount. The overall favorable development of $144 million consisted of approximately $473 million of favorable development from accident years 2004 through 2007, partially offset by approximately $329 million of adverse loss development from accident years 2003 and prior. In the three months ended September 30, 2008, AIG completed an update of its ground up projections of claims exposure for the directors and officers liability (D&O) and related management liability classes of business within AIG Executive Liability. AIG utilizes the ultimate loss estimates resulting from these claims projections as a benchmark in determining the appropriate loss reserves for this business. As a result of the updated claims projections, the quarterly review of reported loss experience as of September 30, 2008 and other relevant factors, AIG recognized approximately $105 million in favorable loss development from prior accident years for the D&O and related management liability classes of business in the three months ended September 30, 2008. This consisted of approximately $185 million of favorable development from accident years 2004 through 2006, partially offset by approximately $80 million of adverse development from accident years 2000 through 2002. The overall favorable development of $144 million reflects this $105 million in favorable development from the D&O and related management liability classes of business within AIG Executive Liability. The overall favorable development of $144 million also included approximately $140 million of favorable development from business written within Commercial Insurance by Lexington Insurance Company, including casualty, catastrophic casualty, healthcare and program business. Partially offsetting these favorable developments within Commercial Insurance was approximately $170 million of adverse development from business written

by AIG Excess Casualty, primarily from accident years 2003 and prior. This adverse development relating to excess casualty reflected continued emergence of latent claims such as construction defect, product aggregate, and pharmaceutical related exposures, as well as higher than expected large loss activity from these accident years. The commutation of one large account within Commercial Insurance resulted in approximately $120 million of favorable development from accident years 2001 and prior in the three months ended September 30, 2008.

Mortgage Guaranty experienced $69 million of adverse development in the three-month period ended September 30, 2008, reflecting the adverse claims environment (see Quarterly Mortgage Guaranty Results above), including approximately $77 million of adverse development from accident year 2007, partially offset by a minor amount of favorable development from earlier accident years.

In the nine-month period ended September 30, 2008, net loss development from prior accident years was favorable by approximately $215 million, including approximately $339 million of favorable development relating to loss sensitive business in the first three months of 2008 (which was offset by an equal amount of negative earned premium development), and excluding approximately $255 million from accretion of loss reserve discount. Excluding both the favorable development relating to loss sensitive business and accretion of loss reserve discount, net loss development from prior accident years in the nine-month period ended September 30, 2008, was adverse by approximately $124 million. The overall favorable development of $215 million consisted of approximately $1.31 billion of favorable development from accident years 2004 through 2007 partially offset by approximately $1.10 billion of adverse loss development from accident years 2003 and prior. Excluding the favorable development from loss sensitive business, the overall adverse development of $124 million consisted of approximately $1.03 billion of favorable development from accident years 2004 through 2007 offset by approximately $1.15 billion of adverse development from accident years 2003 and prior. The adverse development from accident years 2003 and prior was primarily related to excess casualty business within Commercial Insurance. The favorable development from accident years 2004 through 2007 included approximately $280 million in favorable development from loss sensitive business written by AIG Risk Management, and approximately $350 million in favorable development from business written by Lexington Insurance Company, including healthcare, catastrophic casualty, casualty and program businesses. AIG Executive Liability business contributed approximately $250 million to the favorable development from accident years 2004 and 2005, relating primarily to D&O. The adverse development from accident years 2003 and prior included approximately $200 million related to claims involving MTBE, a gasoline additive, primarily on excess casualty business within Commercial Insurance from accident years 2000 and prior. In addition, as described above for the three months ended September 30, 2008, the excess casualty adverse developments reflect a variety of other latent claims and large losses. AIG's exposure to these latent exposures was reduced after 2002 due to significant changes in policy terms and conditions as well as underwriting guidelines. Other segments throughout AIG contributed to the adverse developments from accident year 2003 and prior, including D&O and other professional liability classes within Commercial Insurance, and Transatlantic. Mortgage Guaranty contributed approximately $126 million of overall adverse development in the nine-month period ended September 30, 2008, with $119 million relating to accident year 2007. See Year-to-Date Mortgage Guaranty Results above.

2007 Net Loss Development

In the three months ended September 30, 2007, net loss development from prior accident years was favorable by approximately $337 million, including approximately $11 million of adverse development from the general reinsurance operations of Transatlantic, and excluding approximately $92 million from accretion of loss reserve discount. Excluding Transatlantic, as well as accretion of discount, net loss development in the three months ended September 30, 2007 from prior accident years was favorable by approximately $348 million. The overall favorable development of $337 million consisted of approximately $764 million of favorable development from accident years 2004 through 2006, partially offset by approximately $299 million of adverse development from accident years 2002 and prior and $128 million of adverse development from accident year 2003. For the three months ended September 30, 2007, most classes of AIG's business continued to experience favorable development for accident years 2004 through 2006. The majority of the adverse development from accident years 2002 and prior was related to developments from excess casualty business within Commercial Insurance and from Transatlantic. The adverse development from accident year 2003 was primarily related to developments from excess casualty business within Commercial Insurance, which represented less than a 1 percent change in the ultimate loss estimate for accident year 2003. In the three months ended September 30, 2007, as described above, AIG completed an update of its ground up projections of claims exposure for the D&O and related management liability classes of business. As a result of the updated claims projections, in addition to the quarterly review of reported loss experience as of September 30, 2007 and other relevant factors, AIG recognized approximately $150 million in favorable loss development from prior accident years for the D&O and related management liability classes of business in the three months ended September 30, 2007. This consisted of approximately $200 million of favorable development from accident years 2004 through 2006, partially offset by approximately

$50 million of adverse development from accident years 2002 and prior. The overall favorable development of $337 million reflects this $150 million from the D&O and related management liability classes of business within Commercial Insurance.

In the first nine months of 2007, net loss development from prior accident years was favorable by approximately $605 million, including approximately $47 million of adverse development from the general reinsurance operations of Transatlantic, and excluding approximately $220 million from accretion of loss reserve discount. Excluding Transatlantic, as well as accretion of discount, net loss development in the first nine months of 2007 from prior accident years was favorable by approximately $652 million. The overall favorable development of $605 million consisted of approximately $1.52 billion of favorable development from accident years 2004 through 2006, partially offset by approximately $771 million of adverse development from accident years 2002 and prior and $143 million of adverse development from accident year 2003. For the first nine months of 2007, most classes of AIG's business continued to experience favorable development for accident years 2004 through 2006. The majority of the adverse development from accident years 2002 and prior was related to development from excess casualty business within Commercial Insurance and from Transatlantic. The adverse development from accident year 2003 was primarily related to developments from excess casualty business within Commercial Insurance. The overall favorable development of $605 million includes approximately $200 million pertaining to the D&O and related management liability classes of business within Commercial Insurance, consisting of approximately $235 million of favorable development from accident years 2004 through 2006, partially offset by approximately $35 million of adverse development from accident years 2002 and prior.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in the 2007 Annual Report on Form 10-K, AIG's reserves relating to asbestos and environmental claims reflect a comprehensive ground-up analysis. In the nine-month period ended September 30, 2008, AIG maintained the ultimate loss estimates for asbestos and environmental claims resulting from the recently completed reserve analyses. A minor amount of adverse incurred loss development pertaining to asbestos was reflected in the nine-month period ended September 30, 2008, as presented in the table that follows. This development was primarily attributable to several large defendants, the effect of which was largely offset by one large favorable settlement. A moderate amount of favorable gross incurred loss development pertaining to environmental was reflected in the nine-month period ended September 30, 2008, as presented in the table that follows. This development was primarily attributable to recent favorable experience which was fully reinsured, resulting in no favorable net development on environmental net reserves.

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined appears in the following table. The vast majority of such claims arise from policies written in 1984 and prior years. The current environmental policies that AIG underwrites on a claims-made basis have been excluded from the following table:

	Nine Months Ended September 30,			
	2008		2007	
(in millions)	Gross	Net	Gross[(a)]	Net
Asbestos:				
Reserve for losses and loss expenses at beginning of year	**$ 3,864**	**$ 1,454**	$ 4,523	$ 1,889
Losses and loss expenses incurred[(b)]	**76**	**18**	18	7
Losses and loss expenses paid[(b)]	**(540)**	**(228)**	(614)	(363)
Reserve for losses and loss expenses at end of period	**$ 3,400**	**$ 1,244**	$ 3,927	$ 1,533
Environmental:				
Reserve for losses and loss expenses at beginning of year	**$ 515**	**$ 237**	$ 629	$ 290
Losses and loss expenses incurred[(b)]	**(40)**	**1**	2	(1)
Losses and loss expenses paid[(b)]	**(39)**	**(28)**	(89)	(46)
Reserve for losses and loss expenses at end of period	**$ 436**	**$ 210**	$ 542	$ 243
Combined:				
Reserve for losses and loss expenses at beginning of year	**$ 4,379**	**$ 1,691**	$ 5,152	$ 2,179
Losses and loss expenses incurred[(b)]	**36**	**19**	20	6
Losses and loss expenses paid[(b)]	**(579)**	**(256)**	(703)	(409)
Reserve for losses and loss expenses at end of period	**$ 3,836**	**$ 1,454**	$ 4,469	$ 1,776

(a) Gross amounts were revised from the presentation in prior periods to reflect the inclusion of certain reserves not previously identified as asbestos and environmental related. This revision had no effect on net reserves.
(b) All amounts pertain to policies underwritten in prior years, primarily to policies issued in 1984 and prior years.

The gross and net IBNR included in the reserve for losses and loss expenses, relating to asbestos and environmental claims separately and combined, were estimated as follows:

	Nine Months Ended September 30,			
	2008		2007	
(in millions)	Gross	Net	Gross*	Net
Asbestos	**$ 2,211**	**$ 989**	$ 2,801	$ 1,261
Environmental	**259**	**111**	328	127
Combined	**$ 2,470**	**$ 1,100**	$ 3,129	$ 1,388

* *Gross amounts were revised from the presentation in prior periods to reflect the inclusion of certain reserves not previously identified as asbestos and environmental related. This revision had no effect on net reserves.*

A summary of asbestos and environmental claims count activity was as follows:

	Nine Months Ended September 30,					
	2008			2007		
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	**6,563**	**7,652**	**14,215**	6,878	9,442	16,320
Claims during year:						
Opened	**514**	**864**	**1,378**	321	850	1,171
Settled	**(130)**	**(105)**	**(235)**	(113)	(101)	(214)
Dismissed or otherwise resolved	**(823)**	**(1,561)**	**(2,384)**	(745)	(2,138)	(2,883)
Claims at end of period	**6,124**	**6,850**	**12,974**	6,341	8,053	14,394

Survival Ratios — Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at September 30, 2008 and 2007. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid off using recent year average payments. The September 30, 2008 survival ratio is lower than the ratio at September 30, 2007 because the more recent periods included in the rolling average reflect higher claims payments. In addition, AIG's survival ratio for asbestos claims was negatively affected by the favorable settlement described above, as well as several similar settlements during 2007. These settlements reduced gross and net asbestos survival ratios at

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September 30, 2008 by approximately 1.2 years and 2.7 years, respectively, and reduced gross and net asbestos survival ratios at September 30, 2007 by approximately 1.4 years and 3.2 years, respectively. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resultant survival ratio. Moreover, as discussed above, the primary basis for AIG's determination of its reserves is not survival ratios, but instead the ground-up and top-down analysis. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

AIG's survival ratios for asbestos and environmental claims, separately and combined were based upon a three-year average payment. These ratios at September 30, 2008 and 2007 were as follows:

	Gross*	Net
2008		
Survival ratios:		
Asbestos	5.3	4.1
Environmental	4.6	3.7
Combined	5.2	4.0
2007		
Survival ratios:		
Asbestos	7.7	6.4
Environmental	5.1	3.8
Combined	7.2	5.8

* *Gross amounts for 2007 were revised from the presentation in prior periods to reflect the inclusion of certain reserves not previously identified as asbestos and environmental related. This revision had no effect on net reserves.*

Life Insurance & Retirement Services Operations

AIG's Life Insurance & Retirement Services operations offer a wide range of insurance and retirement savings products both domestically and abroad.

AIG's Foreign Life Insurance & Retirement Services operations include insurance and investment-oriented products such as whole and term life, investment-linked, universal life and endowments, personal accident and health products; group products including pension, life and health; and fixed and variable annuities. The Foreign Life Insurance & Retirement Services products are sold through independent producers, career agents, financial institutions and direct marketing channels.

AIG's Domestic Life Insurance operations offer a broad range of protection products, such as individual life insurance and group life and health products (including disability income products and payout annuities), which include single premium immediate annuities, structured settlements and terminal funding annuities. The Domestic Life Insurance products are sold through independent producers, career agents, financial institutions and direct marketing channels. Home service operations include an array of life insurance, accident and health and annuity products sold primarily through career agents.

AIG's Domestic Retirement Services operations include group retirement products, individual fixed and variable annuities sold through banks, broker-dealers and exclusive sales representatives, and annuity runoff operations, which include previously acquired "closed blocks" and other fixed and variable annuities largely sold through distribution relationships that have been discontinued.

AIG's Life Insurance & Retirement Services reports its operations through the following major internal reporting units and legal entities:

Foreign Life Insurance & Retirement Services

Japan and Other

- American Life Insurance Company (ALICO)
- AIG Star Life Insurance Co., Ltd. (AIG Star Life)
- AIG Edison Life Insurance Company (AIG Edison Life)

Asia

- American International Assurance Company, Limited, together with American International Assurance Company (Bermuda) Limited (AIA)
- Nan Shan Life Insurance Company, Ltd. (Nan Shan)
- American International Reinsurance Company Limited (AIRCO)
- The Philippine American Life and General Insurance Company (Philamlife)

Domestic Life Insurance

- American General Life Insurance Company (AIG American General)
- The United States Life Insurance Company in the City of New York (USLIFE)
- American General Life and Accident Insurance Company (AGLA)

Domestic Retirement Services

- The Variable Annuity Life Insurance Company (VALIC)
- AIG Annuity Insurance Company (AIG Annuity)
- AIG SunAmerica Life Assurance Company (AIG SunAmerica)

Life Insurance & Retirement Services Results

Life Insurance & Retirement Services results were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2008					
Foreign Life Insurance & Retirement Services	**$ 7,359**	**$ 474**	**$ (3,455)**	**$ 4,378**	**$ (2,493)**
Domestic Life Insurance	**1,714**	**973**	**(4,391)**	**(1,704)**	**(3,911)**
Domestic Retirement Services	**281**	**898**	**(8,495)**	**(7,316)**	**(8,925)**
Total	**$ 9,354**	**$ 2,345**	**$(16,341)**	**$ (4,642)**	**$(15,329)**
Three Months Ended September 30, 2007					
Foreign Life Insurance & Retirement Services	$ 6,505	$ 2,367	$ 138	$ 9,010	$ 1,736
Domestic Life Insurance	1,495	985	(295)	2,185	61
Domestic Retirement Services	300	1,471	(334)	1,437	202
Total	$ 8,300	$ 4,823	$ (491)	$12,632	$ 1,999
Percentage Increase/(Decrease) from Prior Year:					
Foreign Life Insurance & Retirement Services	13%	(80)%	–%	(51)%	–%
Domestic Life Insurance	15	(1)	–	–	–
Domestic Retirement Services	(6)	(39)	–	–	–
Total	13%	(51)%	–%	–%	–%
Nine Months Ended September 30, 2008					
Foreign Life Insurance & Retirement Services	**$22,497**	**$ 5,084**	**$ (5,086)**	**$22,495**	**$ (985)**
Domestic Life Insurance	**4,905**	**2,963**	**(7,055)**	**813**	**(5,786)**
Domestic Retirement Services	**855**	**3,687**	**(13,579)**	**(9,037)**	**(12,790)**
Total	**$28,257**	**$11,734**	**$(25,720)**	**$14,271**	**$(19,561)**
Nine Months Ended September 30, 2007					
Foreign Life Insurance & Retirement Services	$19,621	$ 8,611	$ (79)	$28,153	$ 4,674
Domestic Life Insurance	4,392	2,996	(323)	7,065	774
Domestic Retirement Services	882	4,861	(624)	5,119	1,452
Total	$24,895	$16,468	$ (1,026)	$40,337	$ 6,900
Percentage Increase/(Decrease) from Prior Year:					
Foreign Life Insurance & Retirement Services	15%	(41)%	–%	(20)%	–%
Domestic Life Insurance	12	(1)	–	(88)	–
Domestic Retirement Services	(3)	(24)	–	–	–
Total	14%	(29)%	–%	(65)%	–%

The gross insurance in force for Life Insurance & Retirement Services was as follows:

(In millions)	September 30, 2008	December 31, 2007
Foreign*	**$1,394,683**	$1,327,251
Domestic	**1,027,600**	984,794
Total	**$2,422,283**	$2,312,045

* *Includes an increase of $10.5 billion related to changes in foreign exchange rates at September 30, 2008.*

Premiums and other considerations in the three- and nine-month periods ended September 30, 2008 reflect growth primarily due to increased production and favorable foreign exchange rates in the Foreign Life Insurance & Retirement Services operations and sales of payout annuities in Domestic Life Insurance compared to the same periods in 2007.

Net investment income decreased in the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007 due to partnership and mutual fund losses in the 2008 periods compared to income in the 2007 periods, lower yield enhancement income, higher trading account losses in the U.K. associated with certain investment-linked products and increased levels of short-term investments. Policyholder investment income and trading losses (together, policyholder trading gains (losses)) were $(1.6) billion and $(1.7) billion in the three- and nine-month periods ended September 30, 2008, respectively, compared to gains of $150 million and $2.0 billion in the same periods in 2007, reflecting equity market declines. Policyholder trading gains (losses) are offset by a change in incurred policy losses and benefits expense. Policyholder trading gains (losses) generally reflect the trends in equity markets, principally in Japan and Asia.

The higher net realized capital losses in the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007 were primarily driven by impairments related to severity losses, credit events primarily in the financial institutions sector and changes in intent to hold until recovery as the credit market disruption continued. Net realized capital losses resulting from other-than-temporary impairment charges were $15.9 billion and $25.5 billion in the three- and nine-month periods ended September 30, 2008, respectively, compared to $349 million and $1.1 billion in the same periods of 2007. See Invested Assets for further details.

In addition to the higher net realized capital losses and lower net investment income noted above, the operating loss for the three- and nine-month periods ended September 30, 2008 increased as a result of DAC and SIA charges and related reserve strengthening of $728 million in the Domestic Retirement Services operations resulting from the continued weakness in the equity markets and the significantly higher surrender activity resulting from AIG parent's liquidity issues beginning in mid-September. The operating loss also included higher benefit costs in the Japan variable life level premium product resulting from a sharp decline in the Japanese equity market and a loss recognition charge in the Philippine operations. These decreases were partially offset by the favorable effect of foreign exchange rates and growth in the underlying business in force. The operating loss in the three-month period ended September 30, 2008 included a DAC and sales inducement asset (SIA) benefit of $478 million related to net realized capital losses compared to a benefit of $56 million in the same period in 2007. The operating loss in the nine-month period ended September 30, 2008 included a DAC and SIA benefit of $957 million related to net realized capital losses compared to a benefit of $170 million in the same period in 2007.

AIG adopted FAS 157 on January 1, 2008 and the most significant effect on the Life Insurance & Retirement Services results was the change in measurement of fair value for embedded policy derivatives. The pre-tax effect of adoption related to embedded policy derivatives was an increase in net realized capital losses of $155 million as of January 1, 2008, partially offset by a $47 million DAC benefit related to these losses. The effect of initial adoption was primarily due to an increase in the embedded policy derivative liability valuations resulting from the inclusion of explicit risk margins.

AIG adopted FAS 159 on January 1, 2008 and elected to apply the fair value option to a closed block of single premium variable life business in Japan and to an investment-linked product sold principally in Asia. The adoption of FAS 159 with respect to these fair value elections resulted in a decrease to 2008 opening retained earnings of $559 million, net of tax. The fair value of the liabilities for these policies totaled $3.3 billion at September 30, 2008 and is reported in policyholders' contract deposits.

Foreign Life Insurance & Retirement Services Results

Foreign Life Insurance & Retirement Services results on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2008					
Life insurance	**$ 4,282**	**$ 164**	**$(3,078)**	**$ 1,368**	**$(2,490)**
Personal accident	**1,788**	**124**	**(71)**	**1,841**	**323**
Group products	**962**	**124**	**(47)**	**1,039**	**83**
Individual fixed annuities	**221**	**621**	**(258)**	**584**	**(33)**
Individual variable annuities	**106**	**(559)**	**(1)**	**(454)**	**(376)**
Total	**$ 7,359**	**$ 474**	**$(3,455)**	**$ 4,378**	**$(2,493)**
Three Months Ended September 30, 2007					
Life insurance	$ 3,992	$1,598	$ 74	$ 5,664	$ 1,048
Personal accident	1,519	91	12	1,622	353
Group products	744	162	(37)	869	81
Individual fixed annuities	141	533	89	763	286
Individual variable annuities	109	(17)	–	92	(32)
Total	$ 6,505	$2,367	$ 138	$ 9,010	$ 1,736
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	7%	(90)%	–%	(76)%	–%
Personal accident	18	36	–	14	(8)
Group products	29	(23)	–	20	2
Individual fixed annuities	57	17	–	(23)	–
Individual variable annuities	(3)	–	–	–	–
Total	13%	(80)%	–%	(51)%	–%
Nine Months Ended September 30, 2008					
Life insurance	**$13,428**	**$2,896**	**$(4,395)**	**$11,929**	**$(2,007)**
Personal accident	**5,334**	**325**	**(137)**	**5,522**	**1,086**
Group products	**2,960**	**521**	**(88)**	**3,393**	**289**
Individual fixed annuities	**429**	**1,850**	**(486)**	**1,793**	**69**
Individual variable annuities	**346**	**(508)**	**20**	**(142)**	**(422)**
Total	**$22,497**	**$5,084**	**$(5,086)**	**$22,495**	**$ (985)**
Nine Months Ended September 30, 2007					
Life insurance	$12,264	$5,247	$ 47	$17,558	$ 2,855
Personal accident	4,479	261	6	4,746	1,046
Group products	2,187	558	(64)	2,681	233
Individual fixed annuities	387	1,681	(68)	2,000	487
Individual variable annuities	304	864	–	1,168	53
Total	$19,621	$8,611	$ (79)	$28,153	$ 4,674
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	9%	(45)%	–%	(32)%	–%
Personal accident	19	25	–	16	4
Group products	35	(7)	–	27	24
Individual fixed annuities	11	10	–	(10)	(86)
Individual variable annuities	14	–	–	–	–
Total	15%	(41)%	–%	(20)%	–%

AIG transacts business in most major foreign currencies and therefore premiums and other considerations reported in U.S. dollars vary by volume and changes in foreign currency translation rates.

The following table summarizes the effect of changes in foreign currency exchange rates on the growth of the Foreign Life Insurance & Retirement Services premiums and other considerations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	**2008**	2007
Growth in original currency*	**5.5%**	7.5%	**6.6%**	6.8%
Foreign exchange effect	**7.6**	1.2	**8.1**	1.7
Growth as reported in U.S. dollars	**13.1%**	8.7%	**14.7%**	8.5%

* *Computed using a constant exchange rate each period.*

Quarterly Japan and Other Results

First year premium, single premium and annuity deposits for Japan and Other were as follows:

	Three Months Ended September 30,		Percentage Increase/ (Decrease)	
(in millions)	**2008**	2007	U.S.$	Original Currency
First year premium	**$ 764**	$ 598	28%	15%
Single premium	**2,548**	3,606	(29)%	(30)%
Annuity deposits	**4,284**	5,308	(19)%	(19)%

First year premium sales in the three-month period ended September 30, 2008 reflected strong growth in U.S. dollar terms and on an original currency basis compared to the same period in 2007. First year premium life insurance sales in Japan rose principally from increased sales of an interest sensitive product. Personal accident first year premium sales were down slightly due to lower direct marketing sales and a shift to single premium products in Japan. First year premium sales of group products increased primarily due to higher pension deposits in Brazil.

Single premium sales reflected a significant decline as the life insurance product lines fell 37 percent in the three-month period ended September 30, 2008 compared to the same period last year. This decline was due to lower guaranteed income bond sales in the U.K. In Japan, a new single premium personal accident and health product was successfully launched during the first quarter of 2008 with the majority of sales coming through banks which were recently deregulated and are now able to sell accident and health products. Group products single premium sales increased substantially with higher production of credit life insurance products in Europe and higher pension deposits in Brazil.

Annuity deposits decreased in the three-month period ended September 30, 2008 compared to the same period in 2007 due to the continued market volatility which negatively affected individual variable annuities sales in Japan and the U.K. This decline more than offset the increase in individual fixed annuity deposits in Japan which grew as a result of an improved exchange rate environment and benefited from the volatile equity markets. Net flows for Japan fixed annuities increased from $163 million in the three-month period ended September 30, 2007 to $579 million in the three-month period ended September 30, 2008.

Japan and Other results on a sub – product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2008					
Life insurance	**$1,358**	**$ 331**	**$(1,372)**	**$ 317**	**$(1,058)**
Personal accident	**1,268**	**68**	**(10)**	**1,326**	**290**
Group products	**722**	**93**	**(11)**	**804**	**81**
Individual fixed annuities	**212**	**588**	**(225)**	**575**	**(13)**
Individual variable annuities	**104**	**(559)**	**(1)**	**(456)**	**(374)**
Total	**$3,664**	**$ 521**	**$(1,619)**	**$2,566**	**$(1,074)**
Three Months Ended September 30, 2007					
Life insurance	$1,219	$ 393	$ 81	$1,693	$ 429
Personal accident	1,049	48	5	1,102	267
Group products	563	131	(2)	692	76
Individual fixed annuities	137	499	101	737	290
Individual variable annuities	109	(18)	–	91	(32)
Total	$3,077	$1,053	$ 185	$4,315	$ 1,030
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	11%	(16)%	–%	(81)%	–%
Personal accident	21	42	–	20	9
Group products	28	(29)	–	16	7
Individual fixed annuities	55	18	–	(22)	–
Individual variable annuities	(5)	–	–	–	–
Total	19%	(51)%	–%	(41)%	–%

Total revenues for Japan and Other in the three-month period ended September 30, 2008 decreased compared to the same period in 2007 primarily due to higher net realized capital losses and lower net investment income which were partially offset by growth in premiums and other considerations. Realized capital losses increased primarily due to higher other-than-temporary impairments. Net investment income declined in the period due to significantly higher trading account losses related to certain investment-linked products in the U.K., higher policyholder trading losses and losses on partnership investments.

Operating income declined in the three-month period ended September 30, 2008 compared to the same period in 2007 due to significantly higher realized capital losses and $422 million of higher trading account losses in the U.K. related to certain investment-linked products. These decreases were partially offset by the positive effect of foreign exchange. In addition, the three-month period ended September 30, 2007 operating income benefited from $37 million of DAC unlocking and other changes in actuarial estimates and $16 million of higher individual fixed annuities surrender charge income, net of DAC, compared to the same period in 2008.

Year-to-Date Japan and Other Results

First year premium, single premium and annuity deposits for Japan and Other were as follows:

	Nine Months Ended September 30,		Percentage Increase/ (Decrease)	
(in millions)	2008	2007	U.S.$	Original Currency
First year premium	**$ 2,140**	$ 1,891	13%	2%
Single premium	**7,682**	7,724	(1)%	(3)%
Annuity deposits	**15,809**	13,520	17%	16%

First year premium sales for the nine-month period ended September 30, 2008 reflected steady growth in U.S. dollar terms, but were up slightly on an original currency basis compared to the same period in 2007. First year premium sales were bolstered by group products sales in Brazil, Europe and the Middle East. This increase was partially offset by the decline in life insurance and personal accident sales in Japan. Life insurance sales were negatively affected by the suspension of increasing term sales in 2007 while personal accident sales have declined due to lower direct marketing sales.

Single premium sales for the nine-month period ended September 30, 2008 were essentially flat in U.S. dollar terms and down slightly on an original currency basis compared to the same period in 2007. While interest sensitive life insurance sales increased in Japan, guaranteed income bond sales in the U.K. fell as deposits shifted to the variable annuity products. A new single premium personal accident and health product launched in Japan during the first quarter of 2008 continues to perform well and sales which started through banks are being

expanded to the agency channels. Group products produced favorable results as pension deposits in Brazil and credit sales in Europe grew significantly in the nine months ended September 30, 2008 compared to the same period last year.

Annuity deposits increased in the nine-month period ended September 30, 2008 compared to the same period in 2007 as individual fixed annuities in Japan and individual variable annuities in the U.K. performed well. In Japan, fixed annuity products improved due to the launch of new products and a favorable exchange rate environment for non-yen denominated products. Net flows for Japan individual fixed annuities increased from $219 million in the nine-month period ended September 30, 2007 to $2.4 billion in the nine-month period ended September 30, 2008. Variable annuity deposit growth in the U.K. was favorably affected by the launch of a new product; however, the growth rate in the U.K. has slowed as the current market volatility continued. This volatility continues to negatively affect the growth rate in Japan for the individual variable annuity sales.

Japan and Other results on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Nine Months Ended September 30, 2008					
Life insurance	**$ 4,254**	**$1,311**	**$(1,917)**	**$ 3,648**	**$(857)**
Personal accident	**3,781**	**189**	**(45)**	**3,925**	**929**
Group products	**2,274**	**433**	**(28)**	**2,679**	**237**
Individual fixed annuities	**399**	**1,750**	**(421)**	**1,728**	**98**
Individual variable annuities	**341**	**(510)**	**20**	**(149)**	**(421)**
Total	**$11,049**	**$3,173**	**$(2,391)**	**$11,831**	**$(14)**
Nine Months Ended September 30, 2007 Life insurance	$ 3,785	$1,584	$ 96	$ 5,465	$1,219
Personal accident	3,118	150	7	3,275	799
Group products	1,677	482	4	2,163	212
Individual fixed annuities	354	1,591	(63)	1,882	471
Individual variable annuities	302	861	–	1,163	52
Total	$ 9,236	$4,668	$ 44	$13,948	$2,753
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	12%	(17)%	–%	(33)%	–%
Personal accident	21	26	–	20	16
Group products	36	(10)	–	24	12
Individual fixed annuities	13	10	–	(8)	(79)
Individual variable annuities	13	–	–	–	–
Total	20%	(32)%	–%	(15)%	–%

Total revenues for Japan and Other in the nine-month period ended September 30, 2008 decreased compared to the same period in 2007 primarily due to net realized capital losses and lower net investment income. Net realized capital losses were recognized in the period primarily due to other-than-temporary impairment charges. Net investment income declined due to policyholder trading losses, lower partnership and mutual fund income and mark-to-market trading losses related to investment-linked products in the U.K. Policyholder trading losses were $242 million for the nine-month period ended September 30, 2008 compared to gains of $1.4 billion for the same period in 2007. Policyholder trading gains (losses) are offset by a change to incurred policy losses and benefits expense. Partnership and mutual fund income for the nine-month period ended September 30, 2008 was $87 million lower than the same period in 2007. Trading account losses in the U.K. on certain investment-linked products were $722 million for the nine-month period ended September 30, 2008 compared to a loss of $93 million in the same period in 2007.

Despite the continued growth in the underlying business and the positive effect of foreign exchange, the decline in total revenues resulted in an operating loss of $14 million for the nine-month period ended September 30, 2008 compared to income of $2.8 billion in the same period in 2007. The results reflected higher benefit costs of $55 million resulting from volatility in the Japanese equity market and interest rates which affect variable life fair value liabilities under FAS 159, lower DAC unlocking benefits and other changes in actuarial estimates of $51 million and $52 million of lower individual fixed annuities surrender charge income, net of DAC, compared to the same period in 2007. Operating income for the nine-month period ended September 30, 2007 included a $62 million charge related to the regulatory claims review in Japan.

Quarterly Asia Results

First year premium, single premium and annuity deposits for Asia were as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Percentage Increase/(Decrease) U.S.$	Original Currency
First year premium	**$721**	$ 757	**(5)%**	(6)%
Single premium	**383**	1,138	**(66)%**	(67)%
Annuity deposits	**215**	179	**20%**	25%

First year premium sales in the three-month period ended September 30, 2008 declined on a U.S. dollar basis and original currency basis compared to the same period in 2007 as the sales focus in Taiwan shifted to individual variable annuity products. This decline more than offset the increase in first year life insurance sales in Korea, Singapore and Thailand. First year personal accident premiums declined due to increased competition in the direct marketing channel in Korea, which offset positive growth in other parts of Asia. The group products business performed well, particularly in Australia.

Single premium sales in the three-month period ended September 30, 2008 decreased significantly as equity market volatility negatively affected the investment-oriented life insurance sales in Taiwan, Singapore, Hong Kong, China and Korea.

Annuity deposits in the three-month period ended September 30, 2008 increased compared to the same period in 2007 due to sales of variable annuity products in Taiwan.

Asia results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income
Three Months Ended September 30, 2008					
Life insurance	**$2,924**	**$ (167)**	**$(1,706)**	**$1,051**	**$(1,432)**
Personal accident	**520**	**56**	**(61)**	**515**	**33**
Group products	**240**	**31**	**(36)**	**235**	**2**
Individual fixed annuities	**9**	**33**	**(33)**	**9**	**(20)**
Individual variable annuities	**2**	**–**	**–**	**2**	**(2)**
Total	**$3,695**	**$ (47)**	**$(1,836)**	**$1,812**	**$(1,419)**
Three Months Ended September 30, 2007					
Life insurance	$2,773	$1,205	$ (7)	$3,971	$619
Personal accident	470	43	7	520	86
Group products	181	31	(35)	177	5
Individual fixed annuities	4	34	(12)	26	(4)
Individual variable annuities	–	1	–	1	–
Total	$3,428	$1,314	$ (47)	$4,695	$706
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	5%	–%	–%	(74)%	–%
Personal accident	11	30	–	(1)	(62)
Group products	33	–	–	33	(60)
Individual fixed annuities	125	(3)	–	(65)	–
Individual variable annuities	–	–	–	100	–
Total	8%	–%	–%	(61)%	–%

Total revenues for Asia in the three-month period ended September 30, 2008 decreased significantly compared to the same period in 2007, primarily due to the negative effect of policyholder trading losses on net investment income and higher net realized capital losses, which more than offset the growth in premiums and other considerations. Premiums and other considerations increased in the three-month period ended September 30, 2008 compared to the same period in 2007 due to growth in the underlying in force business. Net investment income declined due to policyholder trading losses of $1.1 billion in 2008 compared to gains of $158 million in the same period in 2007 and partnership and mutual fund losses of $363 million compared to income of $16 million in the same period in 2007. Net realized capital losses in the three-month period ended September 30, 2008 included higher other-than-temporary impairment charges.

Asia reported an operating loss of $1.4 billion in the three-month period ended September 30, 2008 compared to income of $706 million in the same period in 2007. This loss was principally due to higher net realized capital losses, partnership and mutual fund losses and a $31 million loss recognition charge in the Philippine operations, which more than offset the favorable effect of foreign exchange.

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Year-to-Date Asia Results

First year premium, single premium and annuity deposits for Asia were as follows:

	Nine Months Ended September 30,		Percentage Increase/ (Decrease)	
(in millions)	**2008**	2007	U.S.$	Original Currency
First year premium	**$2,199**	$2,171	**1%**	(1)%
Single premium	**2,232**	2,708	**(18)%**	(22)%
Annuity deposits	**881**	550	**60%**	59%

First year premium sales in the nine-month period ended September 30, 2008 grew slightly compared to the same period in 2007 as the sales focus shifted more to single premium and annuity products. The increase in investment-oriented life insurance sales in Korea and Singapore was nearly offset by declines in Taiwan life insurance sales due to a shift to variable annuity products in early 2008. The group products business performed well in Australia, China and Singapore.

Single premium sales in the nine-month period ended September 30, 2008 declined compared to the same period in 2007 primarily due to the negative affect of equity market volatility on investment-oriented life insurance sales, particularly in Taiwan, Hong Kong, China and the Philippines. Group products increased due to sales of credit life insurance primarily in Thailand.

Annuity deposits in the nine-month period ended September 30, 2008 increased 60 percent compared to the same period in 2007 due to the variable annuity deposits in Taiwan. Fixed annuity deposits in Korea were down in the nine-month period ended September 30, 2008 compared to the same period last year due to a recent market shift toward variable universal life products.

Asia results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Nine Months Ended September 30, 2008					
Life insurance	**$ 9,174**	**$ 1,585**	**$ (2,478)**	**$ 8,281**	**$ (1,150)**
Personal accident	**1,553**	**136**	**(92)**	**1,597**	**157**
Group products	**686**	**88**	**(60)**	**714**	**52**
Individual fixed annuities	**30**	**100**	**(65)**	**65**	**(29)**
Individual variable annuities	**5**	**2**	**–**	**7**	**(1)**
Total	**$ 11,448**	**$ 1,911**	**$ (2,695)**	**$ 10,664**	**$ (971)**
Nine Months Ended September 30, 2007					
Life insurance	$ 8,479	$ 3,663	$ (49)	$ 12,093	$ 1,636
Personal accident	1,361	111	(1)	1,471	247
Group products	510	76	(68)	518	21
Individual fixed annuities	33	90	(5)	118	16
Individual variable annuities	2	3	–	5	1
Total	$ 10,385	$ 3,943	$ (123)	$ 14,205	$ 1,921
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	8%	(57)%	–%	(32)%	–%
Personal accident	14	23	–	9	(36)
Group products	35	16	–	38	148
Individual fixed annuities	(9)	11	–	(45)	–
Individual variable annuities	150	(33)	–	40	–
Total	10%	(52)%	–%	(25)%	–%

Total revenues in Asia in the nine-month period ended September 30, 2008 decreased compared to the same period in 2007 primarily due to higher net realized capital losses and lower net investment income, which more than offset the growth in premiums and other considerations. Net investment income declined due to policyholder trading losses of $1.4 billion in 2008 compared to gains of $652 million in 2007 and partnership and mutual fund losses of $413 million in 2008 compared to income of $149 million in the same period in 2007. The higher realized capital losses were primarily due to other-than-temporary impairment charges.

Asia reported an operating loss of $971 million for the nine-month period ended September 30, 2008 compared to operating income of $1.9 billion in the same period in 2007. Results for the year were affected by lower total revenues, lower operating income in Taiwan and a $31 million loss recognition charge in the Philippine operations.

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Quarterly Domestic Life Insurance Results

Domestic Life Insurance results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2008					
Life insurance	**$ 667**	**$ 331**	**$ (3,471)**	**$ (2,473)**	**$ (3,176)**
Home service	**189**	**161**	**(577)**	**(227)**	**(486)**
Group life/health	**211**	**49**	**(64)**	**196**	**(70)**
Payout annuities*	**639**	**327**	**(211)**	**755**	**(154)**
Individual fixed and runoff annuities	**8**	**105**	**(68)**	**45**	**(25)**
Total	**$ 1,714**	**$ 973**	**$ (4,391)**	**$ (1,704)**	**$ (3,911)**
Three Months Ended September 30, 2007					
Life insurance	$ 586	$ 375	$ (253)	$ 708	$ (56)
Home service	189	160	(29)	320	52
Group life/health	211	48	(5)	254	53
Payout annuities*	494	287	(10)	771	(13)
Individual fixed and runoff annuities	15	115	2	132	25
Total	$ 1,495	$ 985	$ (295)	$ 2,185	$ 61
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	14%	(12)%	–%	–%	–%
Home service	–	1	–	–	–
Group life/health	–	2	–	(23)	–
Payout annuities	29	14	–	(2)	–
Individual fixed and runoff annuities	(47)	(9)	–	(66)	–
Total	15%	(1)%	–%	–%	–%

* *Includes structured settlements, single premium immediate annuities and terminal funding annuities.*

Total Domestic Life Insurance revenues decreased in the three-month period ended September 30, 2008 compared to the same period in 2007 due to significantly higher net realized capital losses, partially offset by higher premiums and other considerations. The increase in net realized capital losses was primarily driven by other-than-temporary impairment charges related to AIG's securities lending program and of securities held in general account portfolios. See Invested Assets — Securities Lending Activities for further information. Domestic Life Insurance premiums and other considerations increased in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to strong payout annuity premiums and growth in life insurance business in force. Life insurance premiums and other considerations were also positively affected by a $52 million decrease in the unearned revenue liability related to certain blocks of universal life business. The growth in payout annuity deposits was driven by structured settlements and terminal funding annuities in both the U.S. and Canada. Net investment income for the three-month period ended September 30, 2008 was lower than the same period in 2007 despite growth in the underlying business due to reduced overall investment yield from increased levels of short-term investments and higher policyholder trading losses of $82 million.

Domestic Life Insurance reported an operating loss of $3.9 billion for the three-month period ended September 30, 2008 compared to operating income of $61 million in the same period in 2007 due principally to higher net realized capital losses, partially offset by growth in the in-force block and favorable mortality experience in life insurance and payout annuities. Life insurance results were also affected by higher DAC amortization of $30 million due to the decrease in the unearned revenue liability described above, resulting in a net benefit of $22 million. Due to a projected decline in sales as a result of AIG parent's liquidity issues, the deferral of acquisition costs was limited during the three-month period ended September 30, 2008 resulting in additional acquisition expenses of $13 million. In addition, 2007 payout annuities operating income was adversely affected by a $30 million adjustment to increase group annuity reserves. Home service reported an operating loss due to higher net realized capital losses partially offset by improved margins on the in-force business. Group life/health reported an operating loss during the three-month period ended September 30, 2008 compared to the same period in 2007 primarily due to higher net realized capital losses and the strengthening of long-term disability reserves of $8 million. In addition, for the three-month period ended September 30, 2008, policyholder benefit reserves included an increase of $11 million related to the workers compensation reinsurance program compared to a reduction in expense of $52 million for the same period in 2007. The loss for the three-month period ended September 30, 2008 includes a DAC benefit related to realized capital losses of $36 million compared to a DAC benefit of $4 million in the same period in 2007.

Year-to-Date Domestic Life Insurance Results

Domestic Life Insurance results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Nine Months Ended September 30, 2008					
Life insurance	**$1,877**	**$1,069**	**$(5,636)**	**$(2,690)**	**$(4,933)**
Home service	**563**	**477**	**(915)**	**125**	**(660)**
Group life/health	**633**	**144**	**(91)**	**686**	**(64)**
Payout annuities*	**1,797**	**950**	**(266)**	**2,481**	**(99)**
Individual fixed and runoff annuities	**35**	**323**	**(147)**	**211**	**(30)**
Total	**$4,905**	**$2,963**	**$(7,055)**	**$ 813**	**$(5,786)**
Nine Months Ended September 30, 2007					
Life insurance	$1,767	$1,149	$ (213)	$ 2,703	$ 393
Home service	576	479	(42)	1,013	200
Group life/health	637	152	(10)	779	57
Payout annuities*	1,370	852	(51)	2,171	55
Individual fixed and runoff annuities	42	364	(7)	399	69
Total	$4,392	$2,996	$ (323)	$ 7,065	$ 774
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	6%	(7)%	–%	–%	–%
Home service	(2)	–	–	(88)	–
Group life/health	(1)	(5)	–	(12)	–
Payout annuities	31	12	–	14	–
Individual fixed and runoff annuities	(17)	(11)	–	(47)	–
Total	12%	(1)%	–%	(88)%	–%

* *Includes structured settlements, single premium immediate annuities and terminal funding annuities.*

Total Domestic Life Insurance revenues decreased in the nine-month period ended September 30, 2008 compared to the same period in 2007 due to higher net realized capital losses partially offset by higher premiums and other considerations. The increase in net realized capital losses was primarily driven by other-than-temporary impairment charges related to AIG's securities lending program and of securities held in general account portfolios. See Invested Assets — Securities Lending Activities. Domestic Life Insurance premiums and other considerations increased in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to strong payout annuity premiums and growth in life insurance business in force. Life insurance premiums and other considerations were also positively affected by a $52 million decrease in the unearned revenue liability related to certain blocks of universal life business. The growth in payout annuity deposits was driven by sales of structured settlements and terminal funding annuities in both the U.S. and Canada. Net investment income for the nine-month period ended September 30, 2008 was down slightly due to reduced overall investment yield from increased levels of short-term investments and higher policyholder trading losses of $94 million.

Domestic Life Insurance reported an operating loss of $5.8 billion for the nine-month period ended September 30, 2008 compared to operating income of $774 million in the same period in 2007 due principally to higher net realized capital losses. Partially offsetting this item was the growth in the in-force block and favorable mortality experience in the life insurance and payout annuities businesses. Life insurance results were also affected by higher DAC amortization of $30 million due to the decrease in the unearned revenue liability described above, resulting in a net benefit of $22 million. Due to a projected decline in sales as a result of AIG parent's liquidity issues, the deferral of acquisition costs was limited during the nine-month period ended September 30, 2008 resulting in additional acquisition expenses of $17 million. In addition, 2007 payout annuities operating income was adversely affected by a $30 million adjustment to increase group annuity reserves. Home service reported an operating loss due to higher net realized capital losses partially offset by improved margins on the in-force business. Group life/health reported an operating loss during the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to higher net realized capital losses and the strengthening of long-term disability reserves of $8 million. In addition, for the nine-month period ended September 30, 2008, policyholder benefit reserves included an increase of $11 million related to the workers compensation reinsurance program compared to a reduction in expense of $52 million for the same period in 2007. The operating loss during the nine-month period ended September 30, 2008 includes a DAC benefit related to realized capital losses of $73 million compared to a DAC benefit of $8 million in the same period in 2007.

Domestic Life Insurance sales and deposits by product* were as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)
Life insurance						
Periodic premium by product:						
Universal life	**$ 42**	$ 52	(19)%	**$ 135**	$ 150	(10)%
Variable universal life	**9**	19	(53)	**51**	44	16
Term life	**58**	53	9	**171**	165	4
Whole life/other	**2**	2	–	**8**	7	14
Total periodic premiums by product	**111**	126	(12)	**365**	366	–
Unscheduled and single deposits	**52**	134	(61)	**225**	315	(29)
Total life insurance	**163**	260	(37)	**590**	681	(13)
Home service						
Life insurance and accident and health	**25**	22	14	**69**	71	(3)
Fixed annuities	**54**	28	93	**123**	73	68
Unscheduled and single deposits	**7**	4	75	**17**	12	42
Total home service	**86**	54	59	**209**	156	34
Group life/health	**28**	28	–	**100**	88	14
Payout annuities	**867**	711	22	**2,417**	1,996	21
Individual fixed and runoff annuities	**361**	163	121	**701**	351	100
Total sales and deposits	**$1,505**	$1,216	24%	**$4,017**	$3,272	23%

* *Life insurance sales include periodic premium from new business expected to be collected over a one-year period and unscheduled and single premiums from new and existing policyholders. Sales of group accident and health insurance represent annualized first year premium from new policies. Annuity sales represent deposits from new and existing policyholders.*

Total Domestic Life Insurance sales and deposits increased 24 percent and 23 percent for the three- and nine-month periods, respectively, over the same periods in 2007. This growth was principally driven by strong term life, fixed annuity and payout annuity sales. However, the ratings downgrades and recent negative publicity related to AIG and AIG American General are expected to have a significant adverse effect on future sales.

Domestic Life Insurance periodic premium sales decreased 12 percent in the three-month period ended September 30, 2008 compared to the same period in 2007 primarily as a result of lower variable universal life sales. Periodic premium sales were consistent with the nine month period ended September 30, 2008 compared to the same period in 2007 as lower universal life sales were offset by increased private placement variable universal life and term sales. The U.S. life insurance market remains highly competitive and Domestic Life's emphasis on maintaining new business margins has affected sales of term and universal life products, although recent enhancements to term products have resulted in an increase in sales. Group life/health growth was driven by increased sales of supplemental health and voluntary products. Payout annuities have experienced strong growth from terminal funding and structured settlement sales in both the U.S. and Canada. Home service growth was driven by a 14 percent increase in life insurance sales and by increased fixed annuity deposits. Individual fixed and runoff annuities sales and deposits have increased as a result of the current interest rate environment as credited rates offered during the quarter were more competitive with the rates offered by banks on certificates of deposit.

Domestic Life Insurance sales for the three-month period ended September 30, 2008 were up despite AIG parent's liquidity issues.

Quarterly Domestic Retirement Services Results

Domestic Retirement Services results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2008					
Group retirement products	**$ 102**	**$ 307**	**$ (2,533)**	**$ (2,124)**	**$ (2,487)**
Individual fixed annuities	**26**	**499**	**(5,209)**	**(4,684)**	**(5,239)**
Individual variable annuities	**150**	**14**	**(375)**	**(211)**	**(830)**
Individual annuities — runoff*	**3**	**78**	**(378)**	**(297)**	**(369)**
Total	**$ 281**	**$ 898**	**$ (8,495)**	**$ (7,316)**	**$ (8,925)**
Three Months Ended September 30, 2007					
Group retirement products	$ 114	$ 510	$ (116)	$ 508	$ 120
Individual fixed annuities	24	828	(177)	675	42
Individual variable annuities	159	38	(22)	175	41
Individual annuities — runoff*	3	95	(19)	79	(1)
Total	$ 300	$ 1,471	$ (334)	$ 1,437	$ 202
Percentage Increase/(Decrease) from Prior Year:					
Group retirement products	(11)%	(40)%	–%	–%	–%
Individual fixed annuities	8	(40)	–	–	–
Individual variable annuities	(6)	(63)	–	–	–
Individual annuities — runoff	–	(18)	–	–	–
Total	(6)%	(39)%	–%	–%	–%

* *Primarily represents runoff annuity business sold through discontinued distribution relationships.*

Domestic Retirement Services incurred a significant operating loss of $8.9 billion in the three-month period ended September 30, 2008 compared to operating income of $202 million in the same period in 2007, primarily due to significantly increased net realized capital losses and losses on partnership investments. Net realized capital losses for Domestic Retirement Services increased primarily due to other-than-temporary impairment charges of $8.0 billion in the three-month period ended September 30, 2008 compared to charges of $157 million in the same period in 2007, primarily driven by severity losses related to RMBS in AIG's securities lending program due to the change of intent and ability to hold those securities to recovery.

Group retirement products and individual fixed annuities reported a combined operating loss of $7.7 billion in the three-month period ended September 30, 2008 compared to operating income of $162 million in the same period in 2007, primarily as a result of increased net realized capital losses due to higher other-than-temporary impairment charges, losses on partnership investments, DAC and SIA charges and reduced overall investment yield from increased levels of short-term investments. DAC and SIA charges for group retirement products and individual fixed annuities totaled $31 million and $166 million, respectively, related to projected increases in surrenders. These negative effects were partially offset by decreases in DAC amortization and SIA costs of $337 million related to the net realized capital losses compared to $39 million in the same period in 2007.

Individual variable annuities reported an operating loss of $830 million in the three-month period ended September 30, 2008 compared to income of $41 million in the same period in 2007, primarily due to a $531 million DAC charges and related reserve strengthening as a result of continued weakness in the equity markets and, to a lesser extent, increases in anticipated surrenders in the fourth quarter 2008. In addition, net realized capital losses increased largely due to higher other-than-temporary impairment charges and $207 million of increased embedded policy derivative liability valuations, net of related hedges. These decreases were partially offset by decreases in DAC amortization and SIA costs of $54 million related to the net realized capital losses compared to $15 million in the same period in 2007.

Year-to-Date Domestic Retirement Services Results

Domestic Retirement Services results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Nine Months Ended September 30, 2008					
Group retirement products	**$ 320**	**$ 1,289**	**$ (4,213)**	**$ (2,604)**	**$ (3,679)**
Individual fixed annuities	**66**	**2,075**	**(8,046)**	**(5,905)**	**(7,469)**
Individual variable annuities	**459**	**83**	**(670)**	**(128)**	**(1,017)**
Individual annuities — runoff*	**10**	**240**	**(650)**	**(400)**	**(625)**
Total	**$ 855**	**$ 3,687**	**$ (13,579)**	**$ (9,037)**	**$ (12,790)**
Nine Months Ended September 30, 2007					
Group retirement products	$ 331	$ 1,721	$ (229)	$ 1,823	$ 661
Individual fixed annuities	75	2,723	(346)	2,452	606
Individual variable annuities	460	123	(29)	554	146
Individual annuities — runoff*	16	294	(20)	290	39
Total	$ 882	$ 4,861	$ (624)	$ 5,119	$ 1,452
Percentage Increase/(Decrease) from Prior Year:					
Group retirement products	(3)%	(25)%	–%	–%	–%
Individual fixed annuities	(12)	(24)	–	–	–
Individual variable annuities	–	(33)	–	–	–
Individual annuities — runoff	(38)	(18)	–	–	–
Total	(3)%	(24)%	–%	–%	–%

* *Primarily represents runoff annuity business sold through discontinued distribution relationships.*

Domestic Retirement Services incurred a significant operating loss of $12.8 billion in the nine-month period ended September 30, 2008 compared to operating income of $1.5 billion in the same period in 2007, primarily due to significantly increased net realized capital losses and losses on partnership investments. Net realized capital losses for Domestic Retirement Services increased primarily due to other-than-temporary impairment charges of $12.8 billion in the nine-month period ended September 30, 2008 compared to charges of $343 million in the same period in 2007, primarily driven by losses related to securities held in AIG's securities lending program due to the change of intent and ability to hold those securities to recovery.

Both group retirement products and individual fixed annuities reported operating losses in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily as a result of increased net realized capital losses due to higher other-than-temporary impairment charges, lower net investment income due to partnership losses, lower yield enhancement income and reduced overall investment yield from increased levels of short term investments. In addition, DAC and SIA charges for group retirement products and individual fixed annuities totaled $197 million as discussed above. These negative effects were partially offset by decreases in DAC amortization and SIA costs of $666 million related to the net realized capital losses compared to $94 million in the same period in 2007.

Individual variable annuities reported an operating loss of $1.0 billion in the nine-month period ended September 30, 2008 compared to operating income of $146 million in the same period in 2007 primarily as a result of significantly increased net realized capital losses, principally due to other-than-temporary impairment charges and $361 million of increased embedded policy derivative liability valuations, net of related hedges, as well as the $531 million DAC and related reserve strengthening charges described above. Operating losses also included DAC and SIA benefits of $110 million related to the net realized capital losses compared to $21 million in the same period in 2007.

The account value roll forward for Domestic Retirement Services by product was as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Group retirement products				
Balance at beginning of period	**$66,189**	$67,687	**$68,109**	$64,357
Deposits – annuities	**1,450**	1,533	**4,375**	4,414
Deposits – mutual funds	**379**	501	**1,174**	1,296
Total deposits	**1,829**	2,034	**5,549**	5,710
Surrenders and other withdrawals	**(1,637)**	(1,649)	**(4,409)**	(5,061)
Death benefits	**(56)**	(66)	**(179)**	(196)
Net inflows	**136**	319	**961**	453
Change in fair value of underlying investments, interest credited, net of fees	**(3,227)**	694	**(5,972)**	3,889
Other	–	(1)	–	–
Balance at end of period	**$63,098**	$68,699	**$63,098**	$68,699

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Individual fixed annuities				
Balance at beginning of period	**$ 52,077**	$ 52,170	**$ 50,508**	$ 52,685
Deposits	**1,561**	993	**6,036**	3,857
Surrenders and other withdrawals	**(2,096)**	(2,092)	**(5,136)**	(5,611)
Death benefits	**(400)**	(436)	**(1,224)**	(1,293)
Net outflows	**(935)**	(1,535)	**(324)**	(3,047)
Change in fair value of underlying investments, interest credited, net of fees	**481**	501	**1,439**	1,498
Balance at end of period	**$ 51,623**	$ 51,136	**$ 51,623**	$ 51,136
Individual variable annuities				
Balance at beginning of period	**$ 30,667**	$ 33,051	**$ 33,108**	$ 31,093
Deposits	**1,051**	1,181	**3,190**	3,393
Surrenders and other withdrawals	**(1,254)**	(1,031)	**(3,127)**	(3,078)
Death benefits	**(131)**	(124)	**(381)**	(374)
Net inflows (outflows)	**(334)**	26	**(318)**	(59)
Change in fair value of underlying investments, interest credited, net of fees	**(2,804)**	700	**(5,261)**	2,743
Balance at end of period	**$ 27,529**	$ 33,777	**$ 27,529**	$ 33,777
Total Domestic Retirement Services				
Balance at beginning of period	**$148,933**	$152,908	**$151,725**	$148,135
Deposits	**4,441**	4,208	**14,775**	12,960
Surrenders and other withdrawals	**(4,987)**	(4,772)	**(12,672)**	(13,750)
Death benefits	**(587)**	(626)	**(1,784)**	(1,863)
Net inflows (outflows)	**(1,133)**	(1,190)	**319**	(2,653)
Change in fair value of underlying investments, interest credited, net of fees	**(5,550)**	1,895	**(9,794)**	8,130
Other	**–**	(1)	**–**	–
Balance at end of period, excluding runoff	**142,250**	153,612	**142,250**	153,612
Individual annuities runoff	**5,307**	5,829	**5,307**	5,829
Balance at end of period	**$147,557**	$159,441	**$147,557**	$159,441
General and separate account reserves and mutual funds				
General account reserve			**$ 91,472**	$ 89,595
Separate account reserve			**48,518**	61,696
Total general and separate account reserves			**139,990**	151,291
Group retirement mutual funds			**7,567**	8,150
Total reserves and mutual funds			**$147,557**	$159,441

The decrease in group retirement products deposits was due to a decline in both group annuity deposits and group mutual fund deposits. The improvement in individual fixed annuity deposits was due to a steepened yield curve, providing the opportunity to offer higher interest crediting rates than certificates of deposits and mutual fund money market rates available at the time. Although new individual variable annuity products and features were developed in 2007 and 2008, sales did not increase due to declines in the equity markets.

Domestic Retirement Services surrenders and other withdrawals decreased in the group retirement and individual fixed annuity product lines in the nine-month period ended September 30, 2008 compared to the same period in 2007. In general, surrenders and other withdrawals decreased as a result of the relative lack of attractive alternative investment products. However, Domestic Retirement Services surrenders and other withdrawals increased in September 2008 subsequent to the AIG ratings downgrades and the announcement of the Fed Credit Agreement.

Domestic Retirement Services reserves by surrender charge category and surrender rates were as follows:

(in millions)	Group Retirement Products*	Individual Fixed Annuities	Individual Variable Annuities
September 30, 2008			
No surrender charge	**$47,162**	**$11,362**	**$10,886**
0% – 2%	**2,301**	**3,303**	**3,906**
Greater than 2% – 4%	**2,492**	**7,272**	**3,207**
Greater than 4%	**2,666**	**26,399**	**8,944**
Non-surrenderable	**910**	**3,287**	**586**
Total reserves	**$55,531**	**$51,623**	**$27,529**
Surrender rates	**8.9%**	**13.3%**	**13.6%**
September 30, 2007			
No surrender charge	$46,193	$ 9,763	$13,142
0% – 2%	6,519	2,835	5,597
Greater than 2% – 4%	3,771	7,904	5,598
Greater than 4%	3,191	27,205	9,348
Non-surrenderable	875	3,429	92
Total reserves	$60,549	$51,136	$33,777
Surrender rates	10.2%	14.4%	12.7%

* *Excludes mutual funds of $7.6 billion and $8.2 billion at September 30, 2008 and 2007, respectively.*

Surrender rates were essentially flat for group retirement products and individual fixed annuities for the three-month period ended September 30, 2008 compared to the same period in 2007. Surrender rates decreased for group retirement products and individual fixed annuities in the nine-month period ended September 30, 2008 compared to the same period in 2007. The surrender rate for individual fixed annuities continues to be driven by the yield curve and the general aging of the in-force block. Surrender rates increased for individual variable annuities in both the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007 due to publicity concerning AIG's financial situation as well as significant declines in the equity markets. As mentioned above, surrenders have increased in all three product lines in September 2008 subsequent to the AIG ratings downgrades and the announcement of the Fed Credit Agreement.

Life Insurance & Retirement Services Net Investment Income and Net Realized Capital Gains (Losses)

The components of net investment income for Life Insurance & Retirement Services were as follows:

(in millions)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Foreign Life Insurance & Retirement Services:				
Fixed maturities, including short-term investments	**$ 2,411**	$ 2,037	**$ 6,958**	$ 5,876
Equity securities	**214**	186	**325**	284
Interest on mortgage and other loans	**152**	119	**427**	346
Partnership income (loss)	**(40)**	–	**(29)**	86
Mutual funds	**(362)**	5	**(366)**	168
Trading account losses	**(501)**	(79)	**(722)**	(93)
Other(a)	**169**	65	**415**	193
Total investment income before policyholder income and trading gains (losses)	**2,043**	2,333	**7,008**	6,860
Policyholder investment income and trading gains (losses)(b)	**(1,489)**	141	**(1,645)**	2,017
Total investment income	**554**	2,474	**5,363**	8,877
Investment expenses	**80**	107	**279**	266
Net investment income	**$ 474**	$ 2,367	**$ 5,084**	$ 8,611
Domestic Life Insurance:				
Fixed maturities, including short-term investments	**$ 885**	$ 865	**$ 2,596**	$ 2,646
Equity securities	**25**	(4)	**66**	(7)
Interest on mortgage and other loans	**107**	110	**309**	312
Partnership income (loss) — excluding Synfuels	**(3)**	26	**22**	113
Partnership loss — Synfuels	**(2)**	(26)	**(10)**	(101)
Mutual funds	**(3)**	(1)	**(2)**	4
Other(a)	**55**	17	**117**	57
Total investment income before policyholder income and trading gains (losses)	**1,064**	987	**3,098**	3,024
Policyholder investment income and trading gains (losses)(b)	**(73)**	9	**(85)**	9
Total investment income	**991**	996	**3,013**	3,033
Investment expenses	**18**	11	**50**	37
Net investment income	**$ 973**	$ 985	**$ 2,963**	$ 2,996
Domestic Retirement Services:				
Fixed maturities, including short-term investments	**$ 1,229**	$ 1,325	**$ 3,577**	$ 4,089
Equity securities	**1**	4	**10**	28
Interest on mortgage and other loans	**147**	141	**444**	397
Partnership income (loss)	**(528)**	6	**(434)**	389
Other(a)	**64**	9	**136**	1
Total investment income	**913**	1,485	**3,733**	4,904
Investment expenses	**15**	14	**46**	43
Net investment income	**$ 898**	$ 1,471	**$ 3,687**	$ 4,861
Total:				
Fixed maturities, including short-term investments	**$ 4,525**	$ 4,227	**$ 13,131**	$ 12,611
Equity securities	**240**	186	**401**	305
Interest on mortgage and other loans	**406**	370	**1,180**	1,055
Partnership income (loss) — excluding Synfuels	**(571)**	32	**(441)**	588
Partnership loss — Synfuels	**(2)**	(26)	**(10)**	(101)
Mutual funds	**(365)**	4	**(368)**	172
Trading account losses	**(501)**	(79)	**(722)**	(93)
Other(a)	**288**	91	**668**	251
Total investment income before policyholder income and trading gains (losses)	**4,020**	4,805	**13,839**	14,788
Policyholder investment income and trading gains (losses)(b)	**(1,562)**	150	**(1,730)**	2,026
Total investment income	**2,458**	4,955	**12,109**	16,814
Investment expenses	**113**	132	**375**	346
Net investment income	**$ 2,345**	$ 4,823	**$ 11,734**	$ 16,468

(a) Includes real estate income, income on non-partnership invested assets, securities lending and Foreign Life Insurance & Retirement Services' equal share of the results of AIG Credit Card Company (Taiwan).

(b) Relates principally to assets held in various trading securities accounts that do not qualify for separate account treatment under AICPA SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1). These amounts are principally offset by an equal change included in incurred policy losses and benefits.

Net investment income decreased $2.5 billion and $4.7 billion in the three- and nine-month periods ended September 30, 2008 compared to the same periods in 2007, respectively, reflective of the recent market volatility. For the three- and nine-month periods ended September 30, 2008, policyholder trading losses were $1.6 billion and $1.7 billion, respectively, compared to gains of $150 million and $2.0 billion in the same periods of 2007 reflecting equity market declines in Japan and Asia. In addition, net investment income was negatively affected by lower yield enhancement income from equity investments, and higher trading account losses. Domestic Life Insurance and Retirement Services held higher balances in cash and short-term investments which negatively affected investment income on fixed maturity securities. Historically, AIG generated income tax credits as a result of investing in Synfuels related to the partnership income (loss) shown in the table above. Synfuel production ceased effective December 31, 2007.

The components of net realized capital gains (losses) for Life Insurance & Retirement Services were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2008**	2007	**2008**	2007
Foreign Life Insurance & Retirement Services:				
Sales of fixed maturities	**$ (28)**	$ (122)	**$ (12)**	$ (167)
Sales of equity securities	**337**	205	**608**	417
Other:				
Other-than-temporary impairments*(a)*	**(3,812)**	(90)	**(5,899)**	(552)
Foreign exchange transactions	**317**	247	**124**	337
Derivatives instruments	**(412)**	(130)	**(329)**	(195)
Other*(b)*	**143**	28	**422**	81
Total Foreign Life Insurance & Retirement Services	**$ (3,455)**	$ 138	**$ (5,086)**	$ (79)
Domestic Life Insurance:				
Sales of fixed maturities	**$ (256)**	$ (83)	**$ (266)**	$ (122)
Sales of equity securities	**(1)**	1	**2**	6
Other:				
Other-than-temporary impairments*(a)*	**(4,121)**	(102)	**(6,780)**	(170)
Foreign exchange transactions	**5**	5	**9**	7
Derivatives instruments	**(10)**	(121)	**(77)**	(91)
Other*(c)*	**(8)**	5	**57**	47
Total Domestic Life Insurance	**$ (4,391)**	$ (295)	**$ (7,055)**	$ (323)
Domestic Retirement Services:				
Sales of fixed maturities	**$ (410)**	$ (142)	**$ (473)**	$ (202)
Sales of equity securities	**18**	4	**41**	20
Other:				
Other-than-temporary impairments*(a)*	**(7,981)**	(157)	**(12,820)**	(343)
Foreign exchange transactions	**13**	6	**12**	13
Derivatives instruments	**(153)**	(34)	**(338)**	(81)
Other*(c)*	**18**	(11)	**(1)**	(31)
Total Domestic Retirement Services	**$ (8,495)**	$ (334)	**$ (13,579)**	$ (624)
Total:				
Sales of fixed maturities	**$ (694)**	$ (347)	**$ (751)**	$ (491)
Sales of equity securities	**354**	210	**651**	443
Other:				
Other-than-temporary impairments*(a)*	**(15,914)**	(349)	**(25,499)**	(1,065)
Foreign exchange transactions	**335**	258	**145**	357
Derivatives instruments	**(575)**	(285)	**(744)**	(367)
Other*(b)(c)*	**153**	22	**478**	97
Total	**$ (16,341)**	$ (491)	**$ (25,720)**	$ (1,026)

(a) See Invested Assets — Portfolio Review — Other-Than-Temporary Impairments for additional information.

(b) Includes losses of $104 million and $16 million allocated to participating policyholders for the three-month periods ended September 30, 2008 and 2007, respectively, and losses of $282 million and $21 million for the nine-month periods ended September 30, 2008 and 2007, respectively.

(c) Includes losses of $12 million and $143 million for the nine-month period ended September 30, 2008 for Domestic Life Insurance and Domestic Retirement Services, respectively, related to the adoption of FAS 157 with respect to embedded policy derivatives.

Included in net realized capital gains (losses) are gains (losses) on sales of investments, derivative gains (losses) for transactions that did not qualify for hedge accounting treatment under FAS 133, foreign exchange gains and losses, other-than-temporary impairment charges and the effects of the adoption of FAS 157 further described below.

Foreign Life Insurance & Retirement Services' net realized capital losses were significantly higher in the nine months ended September 30, 2008 compared to the same period in 2007. The increased other-than-temporary impairment charges were primarily driven by severity losses, credit events and the change in AIG's intent and ability to hold until recovery. See Invested Assets — Portfolio Review herein for further information. Other-than-temporary impairment charges for credit events were primarily related to exposure to certain financial institutions. Other-than-temporary impairment charges of $1.4 billion for the nine months ended September 30, 2008 related to the change in AIG's intent and ability to hold to recovery were primarily driven by RMBS in AIG's securities lending portfolio and the need for additional liquidity for higher surrender activity in September, particularly in the Japan and Korea fixed annuity blocks. Foreign exchange transactions of $317 million and $124 million in the three and nine-month periods ended September 30, 2008, respectively, related to non-functional currency transactions, primarily in Japan and Asia. Derivatives in the Foreign Life Insurance & Retirement Services operations are primarily used to economically hedge cash flows related to U.S. dollar bonds back to the respective currency of the country, principally in Taiwan, Thailand and Singapore. These derivatives do not qualify for hedge accounting treatment under FAS 133 and are recorded in net realized capital gains (losses). The corresponding foreign exchange gain or loss with respect to the economically hedged bond is deferred in accumulated other comprehensive income (loss) until the bond is sold, matures or deemed to be other-than-temporarily impaired.

In the three- and nine-month periods ended September 30, 2008, the Domestic Life Insurance and Domestic Retirement Services operations incurred higher net realized capital losses primarily due to other-than-temporary impairment charges related to severity losses, credit events and the change in AIG's intent and ability to hold until recovery. Other-than-temporary impairment charges of $6.9 billion for the nine months ended September 30, 2008 related to the change in AIG's intent and ability to hold to recovery were primarily driven by securities held in AIG's securities lending portfolio. Derivatives in the Domestic Life Insurance operations include affiliated interest rate swaps used to economically hedge cash flows on bonds and option contracts used to economically hedge cash flows on indexed annuity and universal life products. These derivatives do not qualify for hedge accounting treatment under FAS 133 and are recorded in net realized capital gains (losses). The corresponding gain or loss with respect to the economically hedged bond is deferred in accumulated other comprehensive income (loss) until the bond is sold, matures or is deemed to be other-than-temporarily impaired.

The most significant effect of AIG's adoption of FAS 157 was the change in measurement of fair value for embedded policy derivatives. The pre-tax effect of adoption related to embedded policy derivatives was an increase in net realized capital losses of $155 million as of January 1, 2008. The effect of initial adoption was primarily due to an increase in the embedded policy derivative liability valuations resulting from the inclusion of explicit risk margins.

Deferred Policy Acquisition Costs and Sales Inducement Assets

DAC for Life Insurance & Retirement Services products arises from the deferral of costs that vary with, and are directly related to, the acquisition of new or renewal business. Policy acquisition costs for life insurance products are generally deferred and amortized over the premium paying period in accordance with FAS 60, "Accounting and Reporting by Insurance Enterprises" (FAS 60). Policy acquisition costs that relate to universal life and investment-type products are generally deferred and amortized, with interest in relation to the incidence of estimated gross profits to be realized over the estimated lives of the contracts in accordance with FAS 97. Value of Business Acquired (VOBA) is determined at the time of acquisition and is reported on the consolidated balance sheet with DAC and amortized over the life of the business, similar to DAC. AIG offers sales inducements to contract holders (bonus interest) on certain annuity and investment contracts. Sales inducements are recognized as an asset (SIA) with a corresponding increase to the liability for policyholders' contract deposits on the consolidated balance sheet and are amortized over the life of the contract similar to DAC. The deferral of acquisition and sales inducement costs increased $284 million in the nine-month period ended September 30, 2008 compared to the same period in 2007 primarily due to higher production in the Foreign Life Insurance operations and Domestic Retirement Services. Total amortization expense increased by $540 million in the nine-month period ended September 30, 2008 compared to the same period in 2007. The current year amortization includes a $957 million increase to operating income related to net realized capital losses in the first nine months of 2008 compared to $170 million in the same period of 2007 reflecting significantly higher other-than-temporary impairment charges. Current year amortization for Domestic Retirement Services also includes adjustments for DAC and SIA charges of $354 million related to the continued weakness in the equity markets, DAC and SIA charges of $71 million due to higher surrender activity in September 2008 and DAC and SIA charges of $199 million related to expected future higher surrender activity. There was no effect from higher surrender activity in Domestic Life and the Foreign Life operations as the write-off of the DAC was

offset by related policy charges. Annualized amortization expense levels in the first nine months of both 2008 and 2007 were approximately 13 percent of the opening DAC balance.

AIG adopted FAS 159 on January 1, 2008 and elected to apply fair value accounting for an investment-linked product sold principally in Asia. Upon fair value election, all DAC and SIA are written off and there is no further deferral or amortization of DAC and SIA for that product. The amounts of DAC and SIA written off as of January 1, 2008 were $1.1 billion and $299 million, respectively.

The major components of the changes in DAC/VOBA and SIA were as follows:

	Nine Months Ended September 30,					
	2008			2007		
(in millions)	DAC/VOBA	SIA	Total	DAC/VOBA	SIA	Total
Foreign Life Insurance & Retirement Services						
Balance at beginning of year	**$ 26,175**	**$ 681**	**$ 26,856**	$ 21,153	$ 404	$ 21,557
Acquisition costs deferred	**4,250**	**67**	**4,317**	4,047	99	4,146
Amortization (charged) or credited to operating income:						
Related to net realized capital gains (losses)	**105**	**3**	**108**	44	–	44
Related to unlocking future assumptions	**(24)**	**(2)**	**(26)**	53	4	57
All other amortization	**(2,864)**	**(50)**	**(2,914)**	(2,141)	(12)	(2,153)
Change in unrealized gains (losses) on securities	**2,216**	**7**	**2,223**	558	13	571
Increase (decrease) due to foreign exchange	**(70)**	**(11)**	**(81)**	125	4	129
Other*	**(1,088)**	**(298)**	**(1,386)**	68	–	68
Balance at end of period	**$ 28,700**	**$ 397**	**$ 29,097**	$ 23,907	$ 512	$ 24,419
Domestic Life Insurance						
Balance at beginning of year	**$ 6,432**	**$ 53**	**$ 6,485**	$ 6,006	$ 46	$ 6,052
Acquisition costs deferred	**656**	**11**	**667**	656	12	668
Amortization (charged) or credited to operating income:						
Related to net realized capital gains (losses)	**72**	**1**	**73**	8	–	8
All other amortization	**(472)**	**(6)**	**(478)**	(526)	(4)	(530)
Change in unrealized gains (losses) on securities	**415**	**–**	**415**	197	–	197
Increase (decrease) due to foreign exchange	**(40)**	**–**	**(40)**	80	–	80
Other*	**–**	**–**	**–**	(64)	–	(64)
Balance at end of period	**$ 7,063**	**$ 59**	**$ 7,122**	$ 6,357	$ 54	$ 6,411
Domestic Retirement Services						
Balance at beginning of year	**$ 5,838**	**$ 991**	**$ 6,829**	$ 5,651	$ 887	$ 6,538
Acquisition costs deferred	**654**	**163**	**817**	553	150	703
Amortization (charged) or credited to operating income:						
Related to net realized capital gains (losses)	**598**	**178**	**776**	96	22	118
Related to unlocking future assumptions	**(477)**	**(76)**	**(553)**	4	(17)	(13)
All other amortization	**(651)**	**(141)**	**(792)**	(677)	(120)	(797)
Change in unrealized gains (losses) on securities	**817**	**146**	**963**	314	62	376
Increase (decrease) due to foreign exchange	**–**	**–**	**–**	–	–	–
Balance at end of period	**$ 6,779**	**$ 1,261**	**$ 8,040**	$ 5,941	$ 984	$ 6,925
Total Life Insurance & Retirement Services						
Balance at beginning of year	**$ 38,445**	**$ 1,725**	**$ 40,170**	$ 32,810	$ 1,337	$ 34,147
Acquisition costs deferred	**5,560**	**241**	**5,801**	5,256	261	5,517
Amortization (charged) or credited to operating income:						
Related to net realized capital gains (losses)	**775**	**182**	**957**	148	22	170
Related to unlocking future assumptions	**(501)**	**(78)**	**(579)**	57	(13)	44
All other amortization	**(3,987)**	**(197)**	**(4,184)**	(3,344)	(136)	(3,480)
Change in unrealized gains (losses) on securities	**3,448**	**153**	**3,601**	1,069	75	1,144
Increase (decrease) due to foreign exchange	**(110)**	**(11)**	**(121)**	205	4	209
Other*	**(1,088)**	**(298)**	**(1,386)**	4	–	4
Balance at end of period	**$ 42,542**	**$ 1,717**	**$ 44,259**	$ 36,205	$ 1,550	$ 37,755

* *In 2008, primarily represents the cumulative effect of adoption of FAS 159. In 2007, primarily represents the cumulative effect of adoption of SOP 05-1.*

As AIG operates in various global markets, the estimated gross profits used to amortize DAC, VOBA and SIA are subject to differing market returns and interest rate environments in any single period. The combination of market returns and interest rates may lead to acceleration of amortization in some products and regions and simultaneous deceleration of amortization in other products and regions.

DAC, VOBA and SIA for insurance-oriented, investment-oriented and retirement services products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If actual future profitability is substantially lower than estimated, AIG's DAC, VOBA and SIA may be subject to an impairment charge and AIG's results of operations could be significantly affected in future periods.

Future Policy Benefit Reserves

Periodically, the net benefit reserves (policy benefit reserves less DAC) established for Life Insurance & Retirement Services companies are tested to ensure that, including consideration of future expected premium payments, they are adequate to provide for future policyholder benefit obligations. The assumptions used to perform the tests are current best-estimate assumptions as to policyholder mortality, morbidity, terminations, company maintenance expenses and invested asset returns. For long duration traditional business, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These assumptions include margins for adverse deviation in the event that actual experience might deviate from these assumptions. For business in force outside of North America, 47 percent of total policyholder benefit liabilities at September 30, 2008 represent traditional business where the lock-in principle applies. In most foreign locations, various guarantees are embedded in policies in force that may remain applicable for many decades into the future.

As experience changes over time, the best-estimate assumptions are updated to reflect observed changes. Because of the long-term nature of many of AIG's liabilities subject to the lock-in principle, small changes in certain of the assumptions may cause large changes in the degree of reserve adequacy. In particular, changes in estimates of future invested asset return assumptions have a large effect on the degree of reserve adequacy.

Taiwan

Beginning in 2000, the yield available on Taiwanese 10-year government bonds dropped from approximately 6 percent to 2.5 percent at September 30, 2008. Yields on most other invested assets have correspondingly dropped over the same period. Current sales are focused on products such as:

- variable separate account products which do not contain interest rate guarantees,
- participating products which contain very low implied interest rate guarantees, and
- accident and health policies and riders.

In developing the reserve adequacy analysis for Nan Shan, several key best-estimate assumptions have been made:

- Observed historical mortality improvement trends have been projected to 2014;
- Morbidity, expense and termination rates have been updated to reflect recent experience;
- Taiwan government bond rates are expected to remain at current levels for 10 years and gradually increase to best-estimate assumptions of a market consensus view of long-term interest rate expectations;
- Foreign assets are assumed to comprise 35 percent of invested assets, resulting in a composite long-term investment assumption of approximately 4.9 percent; and
- The current practice permitted in Taiwan of offsetting positive mortality experience with negative interest margins, thus eliminating the need for mortality dividends, will continue.

Future results of the reserve adequacy tests will involve significant management judgment as to mortality, morbidity, expense and termination rates and investment yields. Adverse changes in these assumptions could accelerate DAC amortization and necessitate reserve strengthening. The ability to maintain the current investment strategy is uncertain due to the recent significant declines in the Taiwan equity markets and the related effect on capital solvency and potential actions by the Taiwan regulators. Future results of the reserve adequacy tests will be affected by the nature, timing and duration of any potential change in investment strategy implemented for Nan Shan.

Financial Services Operations

AIG's Financial Services subsidiaries engage in diversified activities including aircraft and equipment leasing, capital markets, consumer finance and insurance premium finance.

Financial Services Results

Financial Services results were as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)
Total revenues:						
Aircraft Leasing	**$ 1,367**	$ 1,237	11%	**$ 3,830**	$ 3,468	**10%**
Capital Markets(a)	**(8,337)**	540	–	**(23,168)**	701	–
Consumer Finance(b)	**1,029**	940	9	**2,988**	2,696	**11**
Other, including intercompany adjustments	**90**	68	32	**334**	244	**37**
Total	**$ (5,851)**	$ 2,785	–%	**$ (16,016)**	$ 7,109	–%
Operating income (loss):						
Aircraft Leasing	**$ 366**	$ 254	44%	**$ 921**	$ 625	**47%**
Capital Markets(a)(c)(d)	**(8,073)**	370	–	**(23,284)**	183	–
Consumer Finance(b)(c)	**(474)**	69	–	**(559)**	180	–
Other, including intercompany adjustments	**(22)**	(24)	–	**42**	20	**110**
Total	**$ (8,203)**	$ 669	–%	**$ (22,880)**	$ 1,008	–%

(a) Both revenues and operating income (loss) include unrealized market valuation losses on AIGFP's super senior credit default swap portfolio of $7.1 billion and $21.7 billion for the three- and nine-month periods ended September 30, 2008, respectively, and $352 million for the three- and nine-month periods ended September 30, 2007.

(b) The nine-month period ended September 30, 2007 included a pre-tax charge of $178 million related to domestic Consumer Finance's mortgage banking activities. Based on a current evaluation of the estimated cost of implementing the Supervisory Agreement entered into with the OTS, partial reversals of this prior year charge included in the three- and nine-month periods ended September 30, 2008 were $10 million and $53 million, respectively.

(c) The three- and nine-month periods ended September 30, 2008 include goodwill impairment charges of $341 million and $91 million related to Consumer Finance and Capital Markets, respectively, resulting from the downturn in the housing markets, the credit crisis and the decision to exit certain AIGFP businesses.

(d) The three- and nine-month periods ended September 30, 2008 include a $563 million reversal of accrued compensation expense under AIGFP's various deferred compensation plans and special incentive plan as a result of significant losses recognized by AIGFP in 2008.

Financial Services reported operating losses in the three- and nine-month periods ended September 30, 2008 compared to operating income in the same periods in 2007, primarily due to unrealized market valuation losses on AIGFP's super senior credit default swap portfolio of $7.1 billion and $21.7 billion in the three- and nine-month periods ended September 30, 2008, respectively, and $352 million for the three- and nine-month periods ended September 30, 2007. The remaining operating loss resulted from the change in credit spreads on AIGFP's other assets and liabilities and a decline in operating income for AGF. AGF's operating income declined in the three-and nine-month periods ended September 30, 2008 compared to the same periods in 2007 primarily due to increases in the provision for finance receivable losses and goodwill impairment. In addition, AGF recorded a pre-tax charge of $27 million in second quarter 2008 resulting from AGF's decision to cease its wholesale originations.

In the first nine months of 2007, AGF recorded a pre-tax charge of $178 million representing the estimated cost of implementing a supervisory agreement (the Supervisory Agreement) entered into with the Office of Thrift Supervision (OTS), which is discussed in the Consumer Finance results of operations section. Based on the evaluations of the estimated cost of implementing the Supervisory Agreement, AGF recorded partial reversals of this prior year charge of $10 million and $53 million for the three- and nine-month periods ended September 30, 2008, respectively.

ILFC generated strong operating income growth in the three-and nine-month periods ended September 30, 2008 compared to the same periods in 2007, driven to a large extent by a larger aircraft fleet, higher lease rates and higher utilization and lower composite borrowing rates.

Aircraft Leasing

Aircraft Leasing operations represent the operations of ILFC, which generates its revenues primarily from leasing new and used commercial jet aircraft to foreign and domestic airlines. Revenues also result from the remarketing of commercial aircraft for ILFC's own account, and remarketing and fleet management services for airlines and financial institutions. ILFC finances its aircraft purchases primarily through the issuance of debt instruments. ILFC economically hedges part of its floating rate and substantially all of its foreign currency denominated debt using interest rate and foreign currency derivatives. Starting in the second quarter of 2007, ILFC began applying hedge accounting to most of its derivatives. The composite borrowing rates, which include the effect of derivatives, at September 30, 2008 and 2007 were 5.01 percent and 5.28 percent, respectively.

ILFC typically contracts to re-lease aircraft before the end of the existing lease term. For aircraft returned before the end of the lease term, ILFC has generally been able to re-lease such aircraft within two to six months of their return. As a lessor, ILFC considers an aircraft "idle" or "off lease" when the

aircraft is not subject to a signed lease agreement or signed letter of intent. During the nine-month period ended September 30, 2008, 22 of ILFC's aircraft were returned by bankrupt lessees. As of October 27, 2008, ILFC has sold one and leased 18 of the 22 aircraft. As of October 31, 2008, all but three of the new aircraft scheduled for delivery through 2010 have been leased.

Quarterly Aircraft Leasing Results

ILFC's operating income increased in the three-month period ended September 30, 2008 compared to the same period in 2007. Rental revenues increased by $75 million or 6 percent, driven by a larger aircraft fleet, higher lease rates and higher utilization. As of September 30, 2008, 950 aircraft in ILFC's fleet were subject to operating leases compared to 894 aircraft as of September 30, 2007. Interest expense decreased by $19 million in the three-month period ended September 30, 2008 compared to the same period in 2007 as a result of lower short-term interest rates. The increases in revenues were offset by an increase in depreciation. Depreciation expense increased by $27 million, or 6 percent, in line with the increase in the size of the aircraft fleet. In the three-month period ended September 30, 2008 and 2007, the gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses, were $67 million and $(19) million, respectively, in both revenues and operating income.

Year-to-Date Aircraft Leasing Results

ILFC's operating income increased in the nine-month period ended September 30, 2008 compared to the same period in 2007. Rental revenues increased by $325 million or 10 percent, driven by a larger aircraft fleet, higher lease rates and higher utilization. As of September 30, 2008, 950 aircraft in ILFC's fleet were subject to operating leases compared to 894 aircraft as of September 30, 2007. Interest expense decreased by $70 million in the nine-month period ended September 30, 2008, compared to the same period in 2007, as a result of lower short-term interest rates. The increases in revenues were partially offset by an increase in depreciation. Depreciation expense increased by $102 million, or 8 percent, in line with the increase in the size of the aircraft fleet. In the nine-month period ended September 30, 2008 and 2007, the gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses, were $4 million and $(32) million, respectively, in both revenues and operating income.

Capital Markets

Capital Markets represents the operations of AIGFP, which has engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and rates. The credit products include credit protection written through credit default swaps on super senior risk tranches of diversified pools of loans and debt securities. AIGFP has also invested in a diversified portfolio of securities and principal investments and engaged in borrowing activities involving the issuance of standard and structured notes and other securities, and entering into GIAs. Given the extreme market conditions experienced during the third quarter of 2008, downgrades of AIG's credit ratings by the rating agencies, as well as AIG's intent to refocus on its core businesses, AIGFP began unwinding its businesses and portfolios.

Historically, AIG's Capital Markets operations derived a significant portion of their revenues from hedged financial positions entered into in connection with counterparty transactions. AIGFP has also participated as a dealer in a wide variety of financial derivatives transactions. Revenues and operating income of the Capital Markets operations and the percentage change in these amounts for any given period are significantly affected by changes in the fair value of AIGFP's assets and liabilities and by the number, size and profitability of transactions entered into during that period relative to those entered into during the comparative period.

AIGFP's products generally require sophisticated models and significant management assumptions to determine fair values and, particularly during times of market disruption, the absence of observable market data can result in fair values at any given balance sheet date that are not indicative of the ultimate settlement values of the products.

Quarterly Capital Markets Results

Capital Markets reported an operating loss in the three-month period ended September 30, 2008 compared to operating income in the same period of 2007, primarily due to a $7.1 billion unrealized market valuation loss related to AIGFP's super senior credit default swap portfolio principally written on multi-sector CDOs and credit valuation adjustments on AIGFP's assets and liabilities. During 2008, AIGFP instituted a number of measures to attempt to manage its liquidity in light of the deteriorating credit markets and its limited ability to access the capital markets. These measures ultimately were unsuccessful. These issues coupled with concerns regarding AIG's resulting financial condition and the subsequent downgrade of its ratings by rating agencies on September 15, 2008 have severely affected AIGFP's non-credit businesses resulting in a significant decline in revenue. AIGFP has not replaced revenues from certain structured transactions that were terminated or matured at the end of 2007 and early 2008.

The change in fair value of AIGFP's credit default swaps was caused by the significant widening in spreads and the downgrades of RMBS and CDO securities by rating agencies in the three-month period ended September 30, 2008 driven

by the credit concerns resulting from U.S. residential mortgages and the severe liquidity crisis affecting the markets. See Critical Accounting Estimates — Valuation of Level 3 Assets and Liabilities.

During the third quarter of 2008, AIGFP purchased super senior CDO securities with a net notional amount of $5.7 billion in connection with 2a-7 Puts. Upon purchase, $4.1 billion of these securities were included in AIGFP's trading securities portfolio and $1.6 billion of the securities were included in the available for sale portfolio at their fair value. Effective January 1, 2008 and until August 2008, AIGFP elected to apply the fair value option to all of its investment securities. In August 2008, AIGFP revised this election and now evaluates whether to elect the fair value option on a case by case basis for securities purchased in connection with the existing structured transaction. Approximately $840 million of the cumulative unrealized market valuation loss previously recognized on these derivatives was realized as a result of these purchases.

Capital Markets' operating loss for the three-month period ended September 30, 2008 includes a net loss of $987 million representing the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities, including $98 million of gains reflected in the unrealized market valuation loss on super senior credit default swaps. Historically, AIG's credit spreads and those on its assets moved in a similar fashion. This relationship began to diverge during second quarter of 2008 and the divergence continued through the third quarter. While AIG's credit spreads widened significantly more than the credit spreads on the ABS and CDO products, which represent a significant portion of AIGFP's investment portfolio, the losses on AIGFP's assets more than offset the net gain on its liabilities, which were driven by the significant widening in AIG's credit spreads. The net gain on AIGFP's liabilities was reduced by the effect of posting collateral and the early terminations of GIAs.

The following table presents AIGFP's credit valuation adjustment gains (losses) for the three-month period ended September 30, 2008 (excluding intercompany transactions):

(in millions)

	Counterparty Credit Valuation Adjustment on Assets		AIG Inc.'s Own Credit Valuation Adjustment on Liabilities
Trading securities	$ (2,032)	Term notes	$ 1,003
Loans and other assets	(7)	Hybrid term notes	729
Derivative assets	(240)	GIAs	(1,272)
		Other liabilities	81
		Derivative liabilities*	751
Decrease in assets	$ (2,279)	Decrease in liabilities	$ 1,292
Net pre-tax decrease to other income	$ (987)		

** Includes super senior credit default swap portfolio*

During the third quarter of 2008, AIGFP recognized a gain of $450 million on a sale of its interest in a private equity investment to a consolidated affiliate of AIG, which is eliminated in consolidation. This gain was partially offset by a $322 million loss recorded under the equity method of accounting reflecting AIGFP's share of a goodwill impairment charge recognized by this private equity investment in the third quarter of 2008.

During 2008, AIGFP's revenues from certain products have declined, in part, as a consequence of the continued disruption in the credit markets, the general decline in liquidity in the marketplace, and AIGFP's efforts to manage its liquidity.

The most significant component of Capital Markets operating expenses is compensation. Due to the significant losses recognized by AIGFP during 2008, the entire amount of $563 million accrued under AIGFP's various deferred compensation plans and special incentive plan was reversed in the third quarter of 2008. In the first quarter of 2008, AIGFP established an employee retention plan, which guarantees a broad group of AIGFP's employees and consultants a minimum level of compensation for each of the 2008 and 2009 compensation years, subject to mandatory partial deferral which, in certain circumstances, will be indexed to the price of AIG stock. The expense related to the retention plan is being recognized over the vesting period, beginning in the first quarter of 2008.

Year-to-Date Capital Markets Results

Capital Markets reported an increased operating loss in the nine-month period ended September 30, 2008 compared to the operating loss in the same period of 2007, primarily due to $21.7 billion in unrealized market valuation losses related to AIGFP's super senior credit default swap portfolio principally written on multi-sector CDOs and credit valuation adjustments on AIGFP's assets and liabilities. Financial market conditions in the nine-month period ended September 30, 2008 were characterized by widening credit spreads and declining interest rates.

During the second quarter of 2008, AIGFP implemented further refinements to the cash flow waterfall used by the BET model and the assumptions used therein. These refinements reflected the ability of a CDO to use principal proceeds to cover interest payment obligations on lower-rated tranches, the ability of a CDO to use principal proceeds to cure a breach of an over collateralization test, the ability of a CDO to amortize certain senior CDO tranches on a pro-rata or sequential basis and the preferential payment of management fees. To the extent there is a lag in the prices provided by the collateral managers, AIG refines those prices by rolling them forward to the end of the quarter using prices provided by a third party pricing service. The net effect of these refinements was an incremental unrealized market valuation loss of $342 million. Refinements made during the third quarter of 2008 had only a de minimis effect on the unrealized market valuation loss.

During the second quarter of 2008, AIGFP issued new 2a-7 Puts with a net notional amount of $5.4 billion on the super senior security issued by a CDO of AAA-rated commercial mortgage-backed securities (CMBS) pursuant to a facility that was entered into in 2005. At this time, AIGFP is not party to any commitments to enter into any new 2a-7 Puts.

During the nine month period ended September 30, 2008, AIGFP extinguished its obligations with respect to a credit default swap by purchasing the protected CDO security for $103 million, its principal amount outstanding related to this obligation. Additionally, AIGFP purchased other super senior CDO securities with a net notional amount of $6.6 billion in connection with 2a-7 Puts. Upon purchase, $5.0 billion of these securities were included in AIGFP's trading portfolio and $1.6 billion in available for sale portfolio at their fair value. Approximately $907 million of the cumulative unrealized market valuation loss previously recognized on these derivatives was realized as a result of these purchases.

The net loss recognized for the nine-month period ended September 30, 2007 included a $166 million reduction in fair value of certain derivatives that are an integral part of, and economically hedge, the structured transactions potentially affected by the proposed guidance by the United States Department of the Treasury affecting the ability to claim foreign tax credits.

Effective January 1, 2008, AIGFP adopted FAS 157. The most significant effect of adopting FAS 157 was a change in the valuation methodologies for hybrid financial instruments and derivative liabilities (both freestanding and embedded) historically carried at fair value. The changes were primarily to incorporate AIGFP's own credit risk, when appropriate, in the fair value measurements.

Effective January 1, 2008, AIGFP elected to apply the fair value option under FAS 159 to all eligible assets and liabilities (other than equity method investments trade receivables and trade payables) because electing the fair value option allows AIGFP to more closely align its earnings with the economics of its transactions by recognizing concurrently through earnings the change in fair value of its derivatives and the offsetting change in fair value of the assets and liabilities being hedged as well as the manner in which the business is evaluated by management. In August 2008, AIGFP prospectively modified this election as management believes it is appropriate to exclude the automatic election of securities purchased in connection with existing structured credit transactions and their related funding obligations. AIGFP will evaluate whether or not to elect the fair value option on a case-by-case basis for securities purchased in connection with existing structured credit transactions and their related funding obligations.

Capital Markets' operating loss for the nine-month period ended September 30, 2008 includes a loss of $1.4 billion representing the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities, including $207 million of gains reflected in the unrealized market valuation loss on super senior credit default swaps. Historically, AIG's credit spreads and those on its assets moved in a similar fashion. This relationship began to diverge during second quarter of 2008 and continued to diverge through the third quarter. While AIG's credit spreads widened significantly more than the credit spreads on the ABS and CDO products, which represent a significant portion of AIGFP's investment portfolio, the losses on AIGFP's assets more than offset the net gain on its liabilities, which were driven by the significant widening in AIG's credit spreads. The net gain on AIGFP's liabilities was reduced by the effect of posting collateral and the early terminations of GIAs. Included in the nine-month period ended September 30, 2008 operating loss is the transition amount of $291 million related to the adoption of FAS 157 and FAS 159.

The following table presents AIGFP's credit valuation adjustment gains (losses) for the nine-month period ended September 30, 2008 (excluding intercompany transactions):

(in millions)

	Counterparty Credit Valuation Adjustment on Assets		AIG Inc.'s Own Credit Valuation Adjustment on Liabilities
Trading securities	$(4,683)	Term notes	$1,185
Loans and other assets	(35)	Hybrid term notes	1,344
Derivative assets	(543)	GIAs	(200)
		Other liabilities	109
		Derivative liabilities*	1,390
Decrease in assets	$(5,261)	Decrease in liabilities	$3,828
Net pre-tax decrease to other income	$(1,433)		

** Includes super senior CDS portfolio*

Year to date results also reflect the reversal of amounts accrued under AIGFP's various deferred compensation plans in the third quarter of 2008 as discussed above.

Consumer Finance

AIG's Consumer Finance operations in North America are principally conducted through AGF. AGF derives most of its revenues from finance charges assessed on outstanding real estate loans, secured and unsecured non-real estate loans and retail sales finance receivables and credit-related insurance.

Effective February 29, 2008, AGF purchased a portion of Equity One, Inc.'s consumer branch finance receivable portfolio consisting of $1.0 billion of real estate loans, $290 million of non-real estate loans, and $156 million of retail sales finance receivables.

AIG's foreign consumer finance operations are principally conducted through AIGCFG. AIGCFG operates primarily in emerging and developing markets. AIGCFG has operations in Argentina, China, Brazil, Hong Kong, Mexico, Philippines, Poland, Taiwan, Thailand, India and Colombia. In April 2008, AIGCFG decided to sell or liquidate its existing

operations in Taiwan. In October 2008, AIGCFG decided to sell its existing operations in Europe and Asia.

Certain of the AIGCFG operations are partly or wholly owned by life insurance subsidiaries of AIG. Accordingly, the financial results of those companies are allocated between Financial Services and Life Insurance & Retirement Services according to their ownership percentages. While products vary by market, the businesses generally provide credit cards, unsecured and secured non-real estate loans, term deposits, savings accounts, retail sales finance and real estate loans. AIGCFG originates finance receivables through its branches and direct solicitation. AIGCFG also originates finance receivables indirectly through relationships with retailers, auto dealers, and independent agents.

Quarterly Consumer Finance Results

Consumer Finance reported a significant operating loss in the three-month period ended September 30, 2008 compared to operating income in the same period in 2007, primarily due to the write-down of AGF's goodwill of $341 million during the third quarter of 2008 and increases in the provision for finance receivable losses of $198 million.

During 2007 and the nine months ended September 30, 2008, the U.S. residential real estate and credit markets continued to experience significant turmoil as housing prices softened, unemployment increased, consumer delinquencies increased, and credit availability contracted and became more expensive for consumers and financial institutions. These market developments are reflected in AGF's decline in consumer real estate loan originations affecting both revenue and operating income in 2007 and 2008.

AGF's revenues decreased $18 million or 2 percent during the three-month period ended September 30, 2008 compared to the same period in 2007. Revenues from AGF's loan brokerage fees decreased during the three-month period reflecting the slower United Kingdom housing market. AGF's net finance receivables totaled $26.2 billion at September 30, 2008, an increase of approximately $678 million compared to its net finance receivables at December 31, 2007. This increase reflects the purchase of $1.5 billion of finance receivables from Equity One, Inc. on February 29, 2008. The increase in the net finance receivables resulted in an increase in revenues generated from these assets, partially offset by the reduced residential mortgage originations as a result of the slower U.S. housing market.

Revenues from foreign consumer finance operations increased by 73 percent in the three-month period ended September 30, 2008 compared to the same period in 2007, due primarily to loan growth, particularly in Poland and Latin America, and revenues from the recently acquired business in Colombia. The increase in revenues was partially offset by increases in the provision for finance receivable losses and operating expenses associated with branch expansions, acquisition activities and product promotion campaigns.

Year-to-Date Consumer Finance Results

Consumer Finance reported a significant operating loss in the nine-month period ended September 30, 2008 compared to operating income in the same period in 2007, primarily due to increases in the provision for finance receivable losses of $471 million and the write-down of AGF's goodwill of $341 million during the nine months ended September 30, 2008. The nine-month period ended September 30, 2007 reflected a charge of $178 million relating to the estimated cost of implementing the Supervisory Agreement.

AGF's revenues increased $34 million or 2 percent during the nine-month period ended September 30, 2008 compared to the same period in 2007. Revenues from AGF's finance receivables increased as a result of the $1.5 billion finance receivable purchase in the first quarter of 2008, but were partially offset by reduced residential mortgage originations due to the slower U.S. housing market. Revenues from AGF's mortgage banking activities increased $166 million in the nine-month period ended September 30, 2008 compared to the same period in 2007 (which included a charge of $178 million related to the Supervisory Agreement). AGF reversed $53 million of the previously recorded charge in the nine months ended September 30, 2008. The nine-month period ended September 30, 2007 included a recovery of $65 million from a favorable out of court settlement. Revenues from AGF's loan brokerage fees decreased during the nine-month period reflecting the slower United Kingdom housing market.

Revenues from the foreign consumer finance operations increased by 55 percent in the nine-month period ended September 30, 2008 compared to the same period in 2007, due primarily to loan growth, particularly in Poland and Latin America, and revenues from the recently acquired business in Colombia. The increase in revenues was more than offset by increases in the provision for finance receivable losses and operating expenses associated with branch expansions, acquisition activities and product promotion campaigns.

Credit Quality of Finance Receivables

The overall credit quality of AGF's finance receivables portfolio deteriorated during the nine-month period ended September 30, 2008 due to negative economic fundamentals, the aging of the real estate loan portfolio and a higher proportion of non-real estate loans and retail sales finance receivables.

At September 30, 2008, the 60-day delinquency rate for the entire portfolio increased by 171 basis points to 4.18 percent compared to September 30, 2007, while the 60-day delinquency rate for real estate loans increased by 197 basis points to 4.19 percent. For the three-month period ended September 30, 2008, AGF's net charge-off rate increased to 2.15 percent compared to 1.15 percent for the same period in

2007 and for the nine-month period ended September 30, 2008 increased to 1.81 percent compared to 1.05 percent for the same period in 2007.

AGF's allowance for finance receivable losses as a percentage of outstanding receivables was 3.66 percent at September 30, 2008 compared to 2.11 percent at September 30, 2007.

Asset Management Operations

AIG's Asset Management operations comprise a wide variety of investment-related services and investment products. These services and products are offered to individuals, pension funds and institutions (including AIG subsidiaries) globally through AIG's Spread-Based Investment business, Institutional Asset Management, and Brokerage Services and Mutual Funds business. Also included in Asset Management operations are the results of certain SunAmerica sponsored partnership investments.

Revenues and operating income (loss) for Asset Management are affected by the general conditions in the equity and credit markets. In addition, net realized gains and carried interest revenues are contingent upon various fund closings, maturity levels, investment management performance and market conditions.

Spread-Based Investment Business

AIG's Spread-Based Investment business includes the results of AIG's proprietary Spread-Based Investment operations, the Matched Investment Program (MIP), which was launched in September of 2005 to replace the Guaranteed Investment Contract (GIC) program, which is in runoff whereby no new GIC contracts are being written. The MIP is an investment strategy that involves investing in various asset classes with financing provided through third parties. This business uses various risk mitigating strategies designed to hedge interest rate and currency risk associated with underlying investments and related liabilities. The MIP undertakes various other types of investment risk, namely credit, duration and maturity risk.

Institutional Asset Management

AIG's Institutional Asset Management business, conducted through AIG Investments, provides an array of investment products and services globally to institutional investors, pension funds, AIG subsidiaries and high net worth investors. These products include traditional equity and fixed maturity securities, and a wide range of alternative asset classes. These services include investment advisory and subadvisory services, investment monitoring, securities lending and transaction structuring. Within the fixed maturity and equity asset classes, AIG Investments offers various forms of structured investments aimed at achieving superior returns or capital preservation. Within the alternative asset class, AIG Investments offers hedge and private equity funds and fund-of-funds, direct investments and distressed debt investments.

AIG Global Real Estate provides a wide range of real estate investment and management services for AIG subsidiaries, as well as for third-party institutional investors, high net worth investors and pension funds. Through a strategic network of local real estate ventures, AIG Global Real Estate actively invests in and develops office, industrial, multi-family residential, retail, mixed-use hotel and resort properties located around the world.

AIG Private Bank offers banking, trading and investment management services to private clients and institutions globally. To further focus on its wealth management expansion efforts, AIG Private Bank Ltd. entered into a joint venture agreement with Bank Sarasin & Co. Ltd. Under this agreement, a new Swiss bank was established, into which both AIG Private Bank Ltd. and Bank Sarasin & Co. Ltd. contributed their retail banking businesses. The new bank commenced operations on July 1, 2008 with assets under management of approximately $8 billion.

From time to time, AIG Investments acquires warehoused assets. During the warehousing period, AIG bears the cost and risks associated with carrying these investments, consolidates them on its balance sheet and records the operating results until the investments are transferred, sold or otherwise divested. Changes in market conditions may negatively affect the fair value of these warehoused investments. Market conditions may impede AIG from launching new investment products for which these warehoused assets are being held and may prevent AIG from recovering its investment upon transfer or divestment. In the event that AIG is unable to transfer or otherwise divest its interest in the warehoused investment to third parties, AIG could be required to hold these investments indefinitely. In certain instances, the consolidated warehoused investments are not wholly owned by AIG. In such cases, AIG shares the risk associated with warehousing the asset with the minority interest investors.

Brokerage Services and Mutual Funds

AIG's Brokerage Services and Mutual Funds business, conducted through AIG Advisor Group, Inc. and AIG SunAmerica Asset Management Corp., provides broker-dealer related services and mutual funds to retail investors, group trusts and corporate accounts through an independent network of financial advisors. AIG Advisor Group, Inc., a subsidiary of AIG Retirement Services, Inc., is comprised of several broker-dealer entities that provide these services to clients primarily in the U.S. marketplace. AIG SunAmerica Asset Management Corp. manages, advises and/or administers retail mutual funds, as well as the underlying assets of variable annuities sold by AIG SunAmerica and VALIC to individuals and groups throughout the United States.

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Other Asset Management

Included in Other Asset Management is income or loss from certain AIG SunAmerica sponsored partnerships and partnership investments. Partnership assets consist of investments in a diversified portfolio of private equity funds, affordable housing partnerships and hedge fund investments.

Asset Management Results

Asset Management results were as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2008	2007	Percentage Increase/ (Decrease)
Total revenues:						
Spread-Based Investment business	**$ (903)**	$ 555	–%	**$ (1,710)**	$ 2,304	–%
Institutional Asset Management	**782**	815	(4)	**1,993**	2,113	(6)
Brokerage Services and Mutual Funds	**67**	83	(19)	**215**	243	(12)
Other Asset Management	**64**	66	(3)	**160**	309	(48)
Total	**$ 10**	$ 1,519	(99)%	**$ 658**	$ 4,969	(87)%
Operating income (loss):						
Spread-Based Investment business	**$ (1,229)**	$ 24	–%	**$ (2,900)**	$ 759	–%
Institutional Asset Management	**10**	5	100	**(10)**	671	–
Brokerage Services and Mutual Funds	**10**	27	(63)	**46**	74	(38)
Other Asset Management	**65**	65	–	**155**	302	(49)
Total	**$ (1,144)**	$ 121	–%	**$ (2,709)**	$ 1,806	–%

Asset Management recognized operating losses in the three-and nine-month periods ended September 30, 2008 compared to operating income in the same periods in 2007, primarily due to other-than-temporary impairment charges on fixed maturity securities, significantly lower partnership income, lower securities lending fees, lower net carried interest revenues and impairments on real estate investments. Partially offsetting these declines were increases in net foreign exchange gains on foreign currency denominated GIC and MIP liabilities. Included in operating income (loss) for the three-month period ended September 30, 2008, was the positive effect of excluding the credit valuation adjustment on intercompany derivatives, which had no effect on AIG's consolidated results. The effect of this change on Asset Management was an increase of $155 million to operating income for the three- and nine-month periods ended September 30, 2008, and has been included in the net mark to market gains/losses related to interest rate and foreign exchange hedges, as well as the losses on credit default swaps, identified below. Included in the operating income during the nine-month period ended September 30, 2007 was a gain on the sale of a portion of AIG's investment in The Blackstone Group L.P. (Blackstone) in connection with its initial public offering.

Quarterly Spread-Based Investment Business Results

The Spread-Based Investment business reported an operating loss in the three-month period ended September 30, 2008 compared to marginal operating income in the same period in 2007 due to significantly higher net realized capital losses and lower partnership income. Net realized capital losses for the three-month period ended September 30, 2008, were $1.3 billion compared to $239 million in the same period of 2007 . The increase in net realized capital losses primarily consists of an increase of $1.8 billion in other-than-temporary impairment charges on fixed maturity securities for both the GIC and MIP portfolios and higher mark to market losses on credit default swaps in the MIP. Partially offsetting these increases was a $995 million increase in net foreign exchange gains on foreign currency denominated GIC and MIP liabilities and higher net mark to market gains of $125 million on interest rate and foreign exchange hedges not qualifying for hedge accounting treatment for both the GIC and MIP. Included in the net mark-to-market gains is a credit valuation adjustment on swaps in a liability position.

The other-than-temporary impairment charges on fixed maturity securities held in the GIC and MIP portfolios were $1.4 billion for the GIC and $579 million for the MIP for the three-month period ended September 30, 2008. These impairments primarily resulted from severity losses and the change in AIG's intent and ability to hold securities to recovery related to the Securities Lending portfolio. See Invested Assets — Portfolio Review — Other-Than-Temporary Impairments.

In the GIC program, income from partnership investments declined $330 million for the three-month period ended September 30, 2008, compared to the same period of 2007, reflecting higher returns in the 2007 period and weaker market conditions in 2008. Partially offsetting this decline were foreign exchange gains on foreign currency denominated GIC reserves, which increased by $916 million in the three-month period ended September 30, 2008 compared to the same period in 2007 as a result of the strengthening of the U.S. dollar. As noted below, a significant portion of these GIC reserves mature in the next twelve months.

Operating income for the MIP increased in the three-month period ended September 30, 2008 compared to the same period in 2007, primarily due to higher net interest income resulting from the effect of lower funding costs related to interest rate swaps on debt not receiving hedge accounting treatment and interest accretion related to certain securities that were impaired in prior periods. The MIP net mark to market gains increased $88 million in the third quarter of 2008 compared to the same period in 2007 due primarily to interest rate and foreign exchange derivative positions that, while partially effective in hedging interest rate and foreign exchange risk, did not qualify for hedge accounting treatment. Partially offsetting these increases were higher net mark to market losses of $135 million related to credit default swap investments. The MIP invests in credit default swaps comprised predominantly of single-name high-grade corporate exposures. These losses were partially driven by the widening of corporate credit spreads. AIG enters into hedging arrangements to mitigate the effect of changes in currency and interest rates associated with the fixed and floating rate and foreign currency denominated obligations issued under these programs. Some of these hedging relationships qualify for hedge accounting treatment, while others do not. Income or loss from these hedges not qualifying for hedge accounting treatment are classified as net realized capital gains (losses) in AIG's consolidated statement of income (loss). AIG did not issue any additional debt to fund the MIP in the three-month period ended September 30, 2008 and does not intend to issue any additional debt to fund the MIP.

Year-to-Date Spread-Based Investment Business Results

The Spread-Based Investment business reported an operating loss in the nine-month period ended September 30, 2008 compared to operating income in the same period in 2007 due to significantly higher net realized capital losses and lower partnership income. Included in the operating loss were net realized capital losses of $3.1 billion for the nine-month period ended September 30, 2008, compared to $326 million in the same period in 2007. The increase in net realized capital losses for the nine-month period ended September 30, 2008 primarily consist of an increase of $3.7 billion in other-than-temporary impairment charges on fixed maturity securities for both the GIC and MIP and higher net mark to market losses of $244 million on credit default swap investments held by the MIP due to the widening of corporate credit spreads. Partially offsetting these declines were increased net mark to market gains of $530 million on interest rate and foreign exchange hedges not qualifying for hedge accounting treatment for both the GIC and MIP and a $757 million increase in foreign exchange related gains on foreign denominated GIC reserves and MIP liabilities. Included in the net mark-to-market gains is a credit valuation adjustment on swaps in a liability position.

The other-than-temporary impairment charges on fixed maturity securities held in the GIC and MIP portfolios were $2.5 billion for the GIC and $1.4 billion for the MIP for the nine-month period ended September 30, 2008, primarily resulting from severity losses and the change in AIG's intent and ability to hold securities to recovery related to the Securities Lending portfolio. See Invested Assets — Portfolio Review — Other-Than-Temporary Impairments.

In the GIC program, income from partnership investments decreased $984 million for the nine-month period ended September 30, 2008, compared to the same period of 2007 due to significantly higher returns in the 2007 period and weaker market conditions in 2008. Also contributing to the decline was the one-time distribution from a single partnership of $164 million in the nine-month period ended September 30, 2007. Offsetting these declines were foreign exchange gains on foreign-denominated GIC reserves which increased by $694 million in the nine-month period ended September 30, 2008 as a result of the strengthening of the U.S. dollar compared to the 2007 period and an increase in net mark to market gains on derivative positions of $501 million. As noted below, a significant portion of these GIC reserves mature in the next twelve months. The derivative gains included net mark to market gains on interest rate and foreign exchange derivatives used to economically hedge the effect of interest rate and foreign exchange rate movements on GIC reserves. Although these economic hedges are partially effective in hedging the interest rate and foreign exchange risk, AIG has not applied hedge accounting treatment.

The MIP recognized higher operating income in the nine-months ended September 30, 2008 compared to the same period in 2007 due to higher net interest income due to a larger average asset base, the effect of lower funding costs related to interest rate swaps on debt not receiving hedge accounting treatment and interest accretion related to certain securities that were impaired in prior periods.

AIG did not issue any additional debt to fund the MIP in the nine-month period ended September 30, 2008 and does not intend to issue any additional debt to fund the MIP. Through September 30, 2008, the MIP had cumulative debt issuances of $13.4 billion.

The GIC is in runoff with no new GICs issued subsequent to 2005. The anticipated runoff of the domestic GIC portfolio at September 30, 2008 was as follows:

(in billions)	Less Than One Year	1-3 Years	3+-5 Years	Over Five Years	Total
Domestic GICs	$9.9	$3.3	$3.1	$4.3	$20.6

Quarterly Institutional Asset Management Results

Institutional Asset Management recorded higher operating income in the three-month period ended September 30, 2008 compared to the same period in 2007. The increase primarily reflects an increase in operating income of

$174 million related to a credit valuation adjustment on credit default swaps in a liability position. Excluding this effect, Institutional Asset Management recorded an operating loss for the three-month period ended September 30, 2008, compared to operating income in the same period in 2007. This negative variance was driven by impairment losses on proprietary real estate investments of $102 million, a decrease of $36 million in securities lending revenues, a decrease of $22 million in net carried interest revenues and lower trading gains on market-making activities at AIG Private Bank. Also contributing to the decline were net mark-to-market losses on economic interest rate swap hedges associated with warehouse investments, net mark-to-market losses on non-hedge derivatives and higher net foreign exchange losses.

Due to the current real estate market conditions across the globe, several of AIG Global Real Estate's investments were deemed to be impaired for the third quarter of 2008. The impaired investments were written down to their fair value (or fair value less cost to sell for those assets held for sale). AIG recognizes carried interest revenues on an unrealized basis by reflecting the amount owed to AIG as of the balance sheet date based on the related funds' performance. The reduction in carried interest revenues was driven by lower unrealized carry due to weaker fund performance in the three-month period ended September 30, 2008 compared to the same period in 2007. Partially offsetting these amounts were higher net realized capital gains on the sale of proprietary real estate investments of $31 million.

Base management fees decreased in the three-months ended September 30, 2008 as compared to the 2007 period on a lower average asset base. AIG's unaffiliated client assets under management, including retail mutual funds and institutional accounts, were $80.2 billion, $97.6 billion and $96.8 billion at September 30, 2008, December 31, 2007 and September 30, 2007, respectively. The decline from December 31, 2007 reflects lower asset values due to the significant deterioration in the credit and equity markets during 2008 as well as the loss of some third party institutional clients and redemptions in managed funds.

Total operating loss from various consolidated warehoused investments for the three-month periods ended September 30, 2008 and 2007 was $42 million and $33 million, respectively. A portion of these amounts is offset in minority interest expense, which is not a component of operating income (loss).

Year-to-Date Institutional Asset Management Results

Institutional Asset Management recognized an operating loss in the nine-month period ended September 30, 2008 compared to operating income in the same period in 2007 reflecting lower carried interest of $140 million, impairments on real estate investments of $102 million, reduced securities lending revenues of $60 million, and lower income on fund investments of $112 million. Also included in the 2007 nine month results was a $398 million gain related to the sale of a portion of AIG's investment in Blackstone. The reduction in carried interest revenues was driven by lower net unrealized carry due to significantly higher fund performance in the nine-month period ended September 30, 2007. Partially offsetting the reduction was the positive effect on operating income of $174 million related to a credit valuation adjustment on credit default swaps in a liability position.

Average assets under management increased in the nine-month period ended September 30, 2008 compared to the same period in 2007 and resulted in higher base management fees. However, assets under management at September 30, 2008 declined compared to September 30, 2007 reflecting lower asset values due to the significant deterioration in the credit and equity markets during 2008 as well as the loss of some third party institutional clients and redemptions in managed funds.

Total operating losses from various consolidated warehoused investments for the nine-month periods ended September 30, 2008 and 2007 were $119 million and $72 million, respectively. A portion of these amounts is offset in minority interest expense, which is not a component of operating income (loss).

Brokerage Services and Mutual Funds

Revenues and operating income related to Brokerage Services and Mutual Fund activities decreased due to lower fee income as a result of a lower asset base and a decline in commission income resulting from negative market conditions in the three and nine-month periods ended September 30, 2008 compared to the same periods in 2007.

Other Asset Management Results

Revenues and operating income related to the Other Asset Management activities were unchanged in the three-month period ended September 30, 2008 compared to the same period in 2007. Revenues and operating income decreased by $149 million and $147 million, respectively, in the nine-month period ended September 30, 2008 compared to the same period in 2007 due to significantly higher returns on partnership income during 2007 and weaker market conditions in 2008.

Other Operations

The operating loss of AIG's Other category was as follows:

(in millions)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Operating income (loss):				
Equity earnings in partially owned companies	**$ (13)**	$ 37	**$ 3**	$ 128
Interest expense on Fed Facility[(a)]	**(802)**	–	**(802)**	–
Other interest expense	**(571)**	(315)	**(1,391)**	(869)
Unallocated corporate expenses[(b)]	**(154)**	(166)	**(529)**	(548)
Net realized capital gains (losses)	**139**	(199)	**(96)**	(226)
Other miscellaneous, net	**(15)**	16	**(84)**	(42)
Total Other	**$(1,416)**	$(627)	**$(2,899)**	$(1,557)

(a) Includes $515 million of amortization of prepaid commitment fee asset.
(b) Includes a charge for settlement of a dispute, expenses of corporate staff not attributable to specific operating segments, expenses related to efforts to improve internal controls, corporate initiatives and certain compensation plan expenses.

The operating loss in the three- and nine-month periods ended September 30, 2008 increased compared to the same periods in 2007 primarily due to higher interest expense that resulted from increased borrowings, including interest on the debt and Equity Units from the dates of issuance in May 2008 and borrowings under the Fed Facility. Unallocated corporate expenses included a charge of $24 million and $125 million for the three- and nine-month periods ended September 30, 2008, respectively, for the settlement of a dispute in connection with the July 2008 purchase of the balance of Ascot Underwriting Holdings, Ltd. The decrease in net realized capital losses in the three- and nine-month periods ended September 30, 2008 reflected lower foreign exchange losses on foreign-denominated debt, a portion of which was economically hedged but did not qualify for hedge accounting treatment under FAS 133. Other miscellaneous, net included a $45 million write-off of goodwill related to Mortgage Guaranty in the nine-month period ended September 30, 2008.

Executive Management

On September 18, 2008, AIG's Board of Directors elected Edward M. Liddy as Chief Executive Officer and a director of AIG and appointed him as Chairman of the Board. Simultaneously, Robert B. Willumstad resigned as Chairman and as a director of AIG, and his employment as Chief Executive Officer was terminated without cause.

On October 16, 2008, David L. Herzog was named Executive Vice President and Chief Financial Officer. Steven J. Bensinger, who had served since May 2008 as Vice Chairman — Financial Services and acting Chief Financial Officer, left AIG.

AIG has recently hired a Vice Chairman and Chief Restructuring Officer to oversee the asset disposition plan to sell assets and businesses to repay the Fed Facility.

On September 22, 2008, a $148 million retention program became effective. The program applies to approximately 130 executives and consists of cash awards payable 60 percent in December 2008 and 40 percent in December 2009.

Subsequent to September 30, 2008, AIG implemented two additional retention programs, totaling approximately $321 million covering 2,101 employees. In addition, several business units have adopted their own retention plans; the cost of these plans is included in consolidated results and is being paid by the respective business units.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires the application of accounting policies that often involve a significant degree of judgment. AIG considers that its accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed as critical accounting estimates, to be those relating to reserves for losses and loss expenses, future policy benefits for life and accident and health contracts, recoverability of DAC, estimated gross profits for investment-oriented products, the allowance for finance receivable losses, flight equipment recoverability, other-than-temporary impairments, estimates with respect to income taxes and fair value measurements of certain financial assets and liabilities, including credit default swaps. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG's results of operations would be directly affected.

The major categories for which assumptions are developed and used to establish each critical accounting estimate are highlighted below.

Reserves for Losses and Loss Expenses (General Insurance):

- *Loss trend factors:* used to establish expected loss ratios for subsequent accident years based on premium rate adequacy and the projected loss ratio with respect to prior accident years.
- *Expected loss ratios for the latest accident year:* in this case, accident year 2008 for the year-end 2008 loss reserve analysis. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are utilized for at least the three most recent accident years.
- *Loss development factors:* used to project the reported losses for each accident year to an ultimate amount.

- *Reinsurance recoverable on unpaid losses:* the expected recoveries from reinsurers on losses that have not yet been reported and/or settled.

Future Policy Benefits for Life and Accident and Health Contracts (Life Insurance & Retirement Services):
- *Interest rates:* which vary by geographical region, year of issuance and products.
- *Mortality, morbidity and surrender rates:* based upon actual experience by geographical region modified to allow for variation in policy form, risk classification and distribution channel.

Deferred Policy Acquisition Costs (Life Insurance & Retirement Services):
- *Recoverability:* based on current and future expected profitability, which is affected by interest rates, foreign exchange rates, mortality/morbidity experience, expenses, investment returns and policy persistency.

Deferred Policy Acquisition Costs (General Insurance):
- *Recoverability:* based upon the current terms and profitability of the underlying insurance contracts.

Estimated Gross Profits for Investment-Oriented Products (Life Insurance & Retirement Services):
- *Estimated gross profits:* to be realized over the estimated duration of the contracts (investment-oriented products) affect the carrying value of DAC, unearned revenue liability, SIAs and associated amortization patterns. Estimated gross profits include investment income and gains and losses on investments less required interest, actual mortality and other expenses.

Allowance for Finance Receivable Losses
(Financial Services):
- *Historical defaults and delinquency experience:* utilizing factors, such as delinquency ratio, allowance ratio, charge-off ratio and charge-off coverage.
- *Portfolio characteristics:* portfolio composition and consideration of the recent changes to underwriting criteria and portfolio seasoning.
- *External factors:* consideration of current economic conditions, including levels of unemployment and personal bankruptcies.
- *Migration analysis:* empirical technique measuring historical movement of similar finance receivables through various levels of repayment, delinquency, and loss categories to existing finance receivable pools.

Flight Equipment Recoverability (Financial Services):
- *Expected undiscounted future net cash flows:* based upon current lease rates, projected future lease rates and estimated terminal values of each aircraft based on expectations of market participants.

Other-Than-Temporary Impairments:

AIG evaluates its investments for impairment such that a security is considered a candidate for other-than-temporary impairment if it meets any of the following criteria:

- Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine consecutive months or longer);
- The occurrence of a discrete credit event resulting in (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or
- AIG may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that a security has incurred an other-than-temporary decline in value requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline, such as that experienced in current credit markets, in which AIG could not reasonably assert that the impairment period would be temporary (severity losses). For further discussion, see Invested Assets — Portfolio Review — Other-Than-Temporary Impairments.

At each balance sheet date, AIG evaluates its securities holdings with unrealized losses. When AIG does not intend to hold such securities until they have recovered their cost basis, AIG records the unrealized loss in income. If a loss is recognized from a sale subsequent to a balance sheet date pursuant to changes in circumstances, the loss is recognized in the period in which the intent to hold the securities to recovery no longer existed.

In periods subsequent to the recognition of an other-than-temporary impairment charge for fixed maturity securities, which is not credit or foreign exchange related, AIG generally accretes into income the discount or amortizes the reduced premium resulting from the reduction in cost basis over the remaining life of the security.

Valuation Allowance on Deferred Tax Assets:

Recognition of deferred tax assets and the related valuation allowance is influenced by management’s assessment of AIG’s historic and estimated future profitability profile, including

the character and amount of historic and estimated future taxable income. AIG records a valuation allowance to reduce deferred tax assets to the amount AIG believes is more likely than not to be realized. At each balance sheet date, existing assessments are reviewed and, if necessary, revised to reflect changed circumstances.

Income Taxes on Earnings of Certain Foreign Subsidiaries:

In connection with AIG's asset disposition plan, AIG determined it can no longer assert that earnings of certain foreign subsidiaries will be indefinitely reinvested. Due to the complexity of the U.S. federal income tax laws involved in determining the amount of income taxes incurred on these potential dispositions, as well as AIG's reliance on reasonable assumptions and estimates in calculating this liability, AIG considers the U.S. federal income taxes accrued on the earnings of certain foreign subsidiaries to be a critical accounting estimate.

Fair Value Measurements of Certain Financial Assets and Liabilities:

Overview

AIG measures at fair value on a recurring basis financial instruments in its trading and available for sale securities portfolios, certain mortgage and other loans receivable, certain spot commodities, derivative assets and liabilities, securities purchased (sold) under agreements to resell (repurchase), securities lending invested collateral, non-marketable equity investments, included in other invested assets, certain policyholders' contract deposits, securities and spot commodities sold but not yet purchased, certain trust deposits and deposits due to banks and other depositors, certain long-term borrowings, and certain hybrid financial instruments included in other liabilities. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

AIG management is responsible for the determination of the value of the financial assets and financial liabilities carried at fair value and the supporting methodologies and assumptions. With respect to securities, AIG employs independent third-party valuation service providers to gather, analyze, and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When AIG's valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted internal valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted internal valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates, and other market-observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

AIG employs specific control processes to determine the reasonableness of the fair values of AIG's financial assets and financial liabilities. AIG's processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. AIG assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, AIG may validate the reasonableness of fair values by comparing information obtained from AIG's valuation service providers to other third party valuation sources for selected securities. AIG also validates prices for selected securities

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obtained from brokers through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

The following table quantifies the fair value of fixed income and equity securities by source of value determination as of September 30, 2008:

(in billions)	Fair Value	Percent of Total
Fair value based on external sources[(a)]	$481.1	94.4%
Fair value based on internal sources	28.8	5.6
Total fixed income and equity securities[(b)]	$509.9	100.0%

(a) Includes $45.6 billion whose primary source is broker quotes.
(b) Includes available for sale, trading and securities lending invested collateral securities.

For more detailed information about AIG's accounting policy for the measurement of fair value of financial assets and financial liabilities and information about the financial assets and financial liabilities, see Note 3 to the Consolidated Financial Statements.

Incorporation of Credit Risk in Fair Value Measurements

- *AIG's Own Credit Risk.* Fair value measurements for debt, GIAs, and structured note liabilities at AIGFP incorporate AIG's own credit risk by discounting cash flows at rates that incorporate AIG's currently observable credit default swap spreads and takes into consideration collateral posted by AIG with counterparties at the balance sheet date.

  Fair value measurements for freestanding derivatives incorporate AIG's own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to AIG at the balance sheet date by reference to observable AIG credit default swap spreads. A counterparty's net credit exposure to AIG is determined based on master netting agreements, which take into consideration all derivative positions with AIG, as well as cash collateral posted by AIG with the counterparty at the balance sheet date.

  Fair value measurements for embedded policy derivatives and policyholders' contract deposits take into consideration that policyholder liabilities are senior in priority to general creditors of AIG and therefore are much less sensitive to changes in AIG credit default swap or cash issuance spreads.

- *Counterparty Credit Risk.* Fair value measurements for freestanding derivatives incorporate the counterparty credit by determining the explicit cost for AIG to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty credit default swap spreads. AIG's net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as cash collateral posted by the counterparty at the balance sheet date.

  Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly include the incorporation of counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

Fixed Maturity Securities — Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value fixed maturity securities in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

AIG estimates the fair value of fixed maturity securities not traded in active markets, including securities purchased (sold) under agreements to resell (repurchase) and mortgage and other loans receivable, for which AIG elected the fair value option by referring to traded securities with similar attributes, using dealer quotations and matrix pricing methodologies, discounted cash flow analyses, or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For fixed maturity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Equity Securities Traded in Active Markets — Trading and Available for Sale

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios. Market price data generally is obtained from exchange or dealer markets.

Non-Traded Equity Investments — Other Invested Assets

AIG initially estimates the fair value of equity securities not traded in active markets by reference to the transaction price. This valuation is adjusted only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and

other transactions across the capital structure, offerings in the equity capital markets, and changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Private Limited Partnership and Hedge Fund Investments — Other Invested Assets

AIG initially estimates the fair value of investments in certain private limited partnerships and certain hedge funds by reference to the transaction price. Subsequently, AIG obtains the fair value of these investments generally from net asset value information provided by the general partner or manager of the investments, the financial statements of which generally are audited annually.

Separate and Variable Account Assets

Separate and variable account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over the counter (OTC). AIG generally values exchange-traded derivatives within portfolios using models that calibrate to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying instruments.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

With the adoption of FAS 157 on January 1, 2008, AIG's own credit risk has been considered and is incorporated into the fair value measurement of freestanding derivative liabilities.

Embedded Policy Derivatives

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG's historical experience. With respect to embedded policy derivatives in AIG's variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG's equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity indexed growth rates, volatility of the equity index, future interest rates, and determination on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. With the adoption of FAS 157, these methodologies were not changed, with the exception of incorporating an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

AIGFP's Super Senior Credit Default Swap Portfolio

See Valuation of Level 3 Assets and Liabilities below for a comprehensive discussion of AIGFP's super senior credit default swap portfolio.

Policyholders' Contract Deposits

Policyholders' contract deposits accounted for at fair value beginning January 1, 2008 are measured using an income approach by taking into consideration the following factors:

- Current policyholder account values and related surrender charges,
- The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors, and
- A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholders' contract deposits is recorded as incurred policy losses and benefits in the consolidated statement of income (loss).

Level 3 Assets and Liabilities

Under FAS 157, assets and liabilities recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair value. See Note 3 to the Consolidated Financial Statements for additional information about fair value measurements.

At September 30, 2008, AIG classified $55.3 billion and $40.0 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 5.4 percent and 4.2 percent of the total assets and liabilities, respectively, measured at fair value on a recurring basis. Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. These measurements are made under circumstances in which there is little, if any, market activity for the asset or liability. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

In making the assessment, AIG considers factors specific to the asset or liability. In certain cases, the inputs used to measure fair value of an asset or a liability may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Valuation of Level 3 Assets and Liabilities

AIG values its assets and liabilities classified as Level 3 using judgment and valuation models or other pricing techniques that require a variety of inputs including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs, some of which may be unobservable. The following paragraphs describe the methods AIG uses to measure on a recurring basis the fair value of the major classes of assets and liabilities classified in Level 3.

Private equity and real estate fund investments: These assets initially are valued at the transaction price, i.e., the price paid to acquire the asset. Subsequently, they are measured based on net asset value using information provided by the general partner or manager of these investments, the accounts of which generally are audited on an annual basis.

Corporate bonds and private placement debt: These assets initially are valued at the transaction price. Subsequently, they are valued using market data for similar instruments (e.g., recent transactions, bond spreads or credit default swap spreads), comparisons to benchmark derivative indices or movements in underlying credit spreads. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single-name credit default swap spreads and estimated recovery rates.

Certain Residential Mortgage-Backed Securities (RMBS): These assets initially are valued at the transaction price. Subsequently, they may be valued by comparison to transactions in instruments with similar collateral and risk profiles, remittances received and updated cumulative loss data on underlying obligations, discounted cash flow techniques, and/or option adjusted spread analyses.

Certain Asset-Backed Securities — non-mortgage: These assets initially are valued at the transaction price. Subsequently, they may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities.

CDOs: These assets initially are valued at the transaction price. Subsequently, they are valued based on external price/spread data from independent third parties, dealer quotations, matrix pricing, the BET model or a combination thereof.

AIGFP's Super Senior Credit Default Swap Portfolio: AIGFP wrote credit protection on the super senior risk layer of diversified portfolios of corporate debt, prime residential mortgages, collaterized loan obligations (CLOs) and multi-sector CDOs. In these transactions, AIGFP is at risk of credit performance on the super senior risk layer related to a diversified portfolio referenced to loans or debt securities. Further, these transactions have placed a significant demand on AIGFP's liquidity during 2008, primarily as a result of their

collateral posting provisions. See General Contractual Terms below. To a lesser extent, AIGFP also wrote protection on tranches below the super senior risk layer, primarily in respect of regulatory capital transactions.

At September 30, 2008, the net notional amount, fair value and unrealized market valuation loss of the AIGFP super senior credit default swap portfolio, including certain regulatory capital relief transactions, by asset class were as follows:

	Net Notional Amount			Fair Value Of Derivative Liability at	Unrealized Market Valuation Loss (Gain)	
(in millions)	June 30, 2008(a)	Decrease	September 30, 2008(a)	September 30, 2008(b)	Three Months Ended September 30, 2008(c)	Nine Months Ended September 30, 2008(c)
Regulatory Capital:						
Corporate loans	$172,717	$(40,928)	$131,789	$ –	$ –	$ –
Prime residential mortgages	132,612	(16,054)	116,558	–	–	–
Other(d)	1,619	(19)	1,600	397	272	397
Total	306,948	(57,001)(f)	249,947	397	272	397
Arbitrage:						
Multi-sector CDOs, including 2a-7 Puts	80,301	(8,657)(g)	71,644	30,207	6,262	19,868
Corporate debt/CLOs	53,767	(3,089)(h)	50,678	1,534	538	1,308
Total	134,068	(11,746)	122,322	31,741	6,800	21,176
Mezzanine tranches(e)	5,824	(811)	5,013	153	(18)	153
Total	$446,840	$(69,558)	$377,282	$32,291	$7,054	$21,726

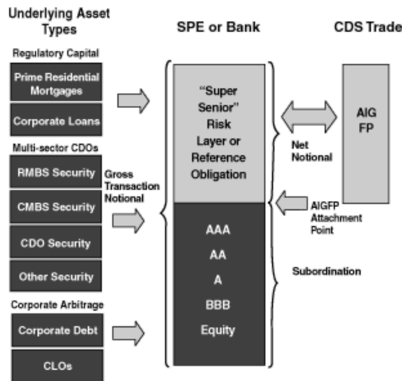
(a) Notional amounts presented are net of all structural subordination below the covered tranches.
(b) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral in accordance with FIN 39.
(c) Includes credit valuation adjustment gains of $98 million and $207 million, respectively, for the three- and nine-month periods ended September 30, 2008.
(d) Represents transactions where AIGFP believes the counterparties are no longer using the transactions to obtain regulatory capital relief. During the second quarter of 2008, a European RMBS regulatory capital relief transaction with a net notional amount of $1.6 billion was not terminated as expected when it no longer provided regulatory capital relief to the counterparty.
(e) Represents credit default swaps written by AIGFP on tranches below super senior on certain regulatory capital relief trades.
(f) The decline includes terminations of $29.5 billion and the effect of foreign exchange rates of $26.4 billion resulting from the strengthening of the U.S. dollar, primarily against the Euro and the British Pound.
(g) The decline includes purchases of $5.7 billion of super senior CDO securities in connection with 2a-7 Puts and amortization of $2.5 billion.
(h) Includes the effect of foreign exchange rates of $2.0 billion resulting from the strengthening of the U.S. dollar, primarily against the Euro.

General Contractual Terms

AIGFP entered into credit default swap and other credit derivative transactions (collectively, CDS) in the ordinary course of its business. In the majority of AIGFP's credit derivatives transactions, AIGFP sold credit protection on a designated portfolio of loans or debt securities. Generally, AIGFP provides such credit protection on a "second loss" basis, meaning that AIGFP will incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceed a specified threshold amount or level of "first loss."

Typically, the credit risk associated with a designated portfolio of loans or securities has been tranched into different layers of risk, which are then analyzed and rated by the credit rating agencies. At origination, there is usually an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers ranging from generally a BBB-rated layer to one or more AAA-rated layers. A significant majority of transactions that are rated by rating agencies have risk layers or tranches that were rated AAA at origination and are immediately junior to the threshold level above which AIGFP's payment obligation would generally arise. In transactions that were not rated, AIGFP applied equivalent risk criteria for setting the threshold level for its payment obligations. Therefore, the risk layer assumed by AIGFP with respect to the designated portfolio of loans or securities in these transactions is often called the "super senior" risk layer, defined as a layer of credit risk senior to one or more risk layers that have been rated AAA by the credit rating agencies, or if the transaction is not rated, structured to the equivalent thereto.

The following graphic represents a typical structure of a transaction including the super senior risk layer:



Regulatory Capital Portfolio

Approximately $250 billion (consisting of corporate loans and prime residential mortgages) of the $377 billion in net notional exposure of AIGFP's super senior credit default swap portfolio as of September 30, 2008 represented derivatives written for financial institutions, principally in Europe, for the purpose of providing regulatory capital relief rather than risk mitigation. In exchange for a periodic fee, the counterparties receive credit protection with respect to diversified loan portfolios they own, thus improving their regulatory capital position. These transactions generally provide for cash settlement (see Triggers and Settlement Alternatives below); however, AIGFP does not expect to be required to make payments under these contracts during their estimated life as these transactions are generally expected to terminate at no additional cost to AIGFP when the transactions no longer provide such regulatory capital benefit. See Regulatory Models and Modeling — Regulatory Capital Portfolio.

Arbitrage Portfolio

Approximately $122 billion of the $377 billion in net notional exposure on AIGFP's super senior credit default swaps as of September 30, 2008 are arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade corporate debt or CLOs. While certain credit default swaps written on corporate debt and multi-sector CDOs provide for cash settlement, the large majority of the AIGFP credit default swaps written on multi-sector CDOs and CLOs require physical settlement (see Triggers and Settlement Alternatives below).

The most significant portfolio, in terms of unrealized market valuation losses, is the super senior multi-sector CDO credit default swap portfolio.

At September 30, 2008, the gross transaction notional amount of the multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, subordination below the super senior risk layer and AIGFP net notional exposure were as follows:

(in millions)	Gross Transaction Notional Amount*(a)*	Subordination Below Super Senior Risk Layer	Net Notional Amount*(b)*	Fair Value of Derivative Liability at September 30, 2008
High grade with sub-prime collateral	$ 50,582	$ 9,751	$ 40,831	$ 18,201
High grade with no sub-prime collateral	30,284	14,581	15,703	4,195
Total high grade(c)	80,866	24,332	56,534	22,396
Mezzanine with sub-prime	25,888	11,575	14,313	7,487
Mezzanine with no sub-prime	1,698	901	797	324
Total mezzanine(d)	27,586	12,476	15,110	7,811
Total	$ 108,452	$ 36,808	$ 71,644	$ 30,207

(a) Total outstanding principal amount of securities held by a CDO.
(b) Notional size on which AIGFP wrote credit protection.
(c) "High grade" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly AA or higher at origination.
(d) "Mezzanine" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly A or lower at origination.

At September 30, 2008, the gross notional amount, percentage of the total CDO collateral pools, and ratings and vintage breakdown of collateral securities in the multi-sector CDOs, by ABS category, were as follows:

(dollars in millions)

ABS Category	Gross Transaction Notional Amount	Percent of Total	RATINGS BREAKDOWN AAA	AA	A	BBB	BB	< BB	NR	VINTAGE 2008	2007	2006	2005	2004+P
RMBS PRIME	$ 12,280	11.33%	8.13%	0.97%	0.88%	0.68%	0.17%	0.49%	0.01%	0.08%	2.39%	2.37%	3.36%	3.13%
RMBS ALT-A	17,086	15.75%	6.99%	2.48%	1.87%	1.34%	0.78%	2.29%	0.00%	0.16%	1.40%	3.41%	7.92%	2.86%
RMBS SUBPRIME	40,262	37.12%	2.07%	8.11%	5.56%	5.05%	3.44%	12.89%	0.00%	0.01%	2.48%	2.61%	20.55%	11.47%
CMBS	23,271	21.46%	15.88%	0.99%	1.25%	2.38%	0.51%	0.12%	0.33%	0.08%	5.73%	3.55%	2.77%	9.33%
CDO	10,196	9.40%	1.27%	1.61%	1.37%	1.04%	0.66%	3.41%	0.04%	0.00%	0.32%	1.12%	3.20%	4.76%
OTHER	5,357	4.94%	1.18%	1.06%	1.38%	1.23%	0.02%	0.06%	0.01%	0.12%	0.24%	0.86%	1.46%	2.26%
Total	$ 108,452	100.00%	35.52%	15.22%	12.31%	11.72%	5.58%	19.26%	0.39%	0.45%	12.56%	13.92%	39.26%	33.81%

Triggers and Settlement Alternatives

CDS transactions entered into by counterparties for regulatory capital purposes, together with a number of arbitrage transactions (comprising approximately $47 billion or 38.6 percent of the net notional amount for the arbitrage portfolio at September 30, 2008), have cash-settled structures (see Cash Settlement below) in respect of a basket of reference obligations, where AIGFP's payment obligations may be triggered by payment shortfalls, bankruptcy and certain other events such as write-downs of the value of underlying assets as further described below. By contrast, under the large majority of CDS transactions in respect of multi-sector CDOs (comprising approximately $57 billion or 46.5 percent of the net notional amount for the arbitrage portfolio at September 30, 2008) AIGFP's payment obligations are triggered by the occurrence of a non-payment event under a single reference CDO security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security. See Physical Settlement below. A number of CDS transactions in respect of CLOs have similar settlement mechanisms. In addition, the arbitrage portfolio includes transactions with a net notional amount of $4.9 billion that allow holders to put securities to AIGFP at par in the event of a failed remarketing of the referenced security. AIGFP cannot currently determine if and when it may be required to perform its obligations in the future including the timing of any future triggering events or the amount of any additional purchases, individually or in the aggregate, that might be required.

Physical Settlement. For CDS transactions requiring physical settlement, AIGFP is required to pay unpaid principal and accrued interest for the relevant reference obligation in return for physical delivery of such reference obligation by the CDS buyer upon the occurrence of a credit event. After purchasing the reference obligation, AIGFP may sell the security and recover all or a portion of the purchase price paid under the CDS, or hold such security and be entitled to receive subsequent collections of principal and interest. There can be no assurance that the satisfaction of these obligations by AIGFP will not have a material effect on AIG's liquidity. AIGFP generally is required to settle such a transaction only if the following conditions are satisfied:

- A "Credit Event" (as defined in the relevant CDS transaction confirmation) must have occurred. In all CDS transactions subject to physical settlement, "Failure to Pay" is specified as a Credit Event and is generally triggered if there is a failure by the issuer under the related CDO to make a payment under the reference obligation (after the expiration of any applicable grace period and, in certain transactions, subject to a nominal non-payment threshold having been met).

  In addition, certain of the AIGFP CDSs, with an aggregate net notional amount totaling $7.7 billion, provide credit protection in respect of CDOs that require minimum amounts of collateral to be maintained to support the CDO debt, where the value of such collateral is affected by among other things the ratings of the securities and other obligations comprising such collateral. In the event that the issuer of such a CDO fails to maintain the minimum levels of collateral, an event of default would occur, triggering a right by a specified controlling class of CDO note holders to accelerate the payment of principal and interest on the protected reference obligations. Under certain of the CDSs, upon acceleration of the reference obligations underlying a CDS, AIGFP may be required to purchase such reference obligations for a purchase price equal to unpaid principal and accrued interest of the CDO in settlement of the CDS. As a result of this over-collaterization feature of these CDOs, AIGFP potentially may be required to purchase such CDO securities in settlement of the related CDS sooner than it would be required to if such CDOs did not have an over-collaterization feature. As of November 5, 2008, eight CDOs for which AIGFP had written credit protection on the super senior layer had experienced over-collaterization related events of default. One of these CDOs was accelerated in the second quarter of 2008, and AIGFP extinguished a portion of its CDS obligations by purchasing the protected CDO security for $103 million, which equaled the principal amount

outstanding related to this CDS. AIGFP extinguished the remainder of its CDS obligations related to this CDO on November 6, 2008 by purchasing the protected CDO security for $59 million, which equaled the remaining principal amount of this CDO security subject to CDS protection. AIGFP's remaining CDS net notional exposure with respect to CDOs that have experienced over-collateralization events of default was $2.4 billion at November 5, 2008. While AIGFP believes that these defaulted transactions are most likely to result in a payment by AIGFP, AIG cannot estimate the timing of any required payments since the timing of a Credit Event may be outside of AIGFP's control.

In addition, certain of AIGFP's CDSs provide credit protection in respect of CDOs that provide if the CDO issuer fails to pay amounts due on classes of CDO securities that rank *pari passu* with or subordinate to such referenced obligations, an event of default would occur, triggering a right by a specified controlling class of CDO noteholders to accelerate the payment of principal and interest on the protected reference obligations. As in the case of CDOs with the over-collateralization feature, the existence of such an acceleration feature potentially may result in AIGFP being required to purchase the super senior reference obligation in settlement of the related CDS sooner than would be required if such CDO did not have such acceleration feature.

- The CDS buyer must deliver the reference obligation within a specified period, generally within 30 days. There is no payment obligation if delivery is not made within this period.
- Upon completion of the physical delivery and payment by AIGFP, AIGFP would be the holder of the relevant reference obligation and have all rights associated with a holder of such securities.

Cash Settlement. Transactions requiring cash settlement (also known as "pay as you go") are in respect of protected baskets of reference credits (which may also include single name CDSs in addition to securities and loans) rather than a single reference obligation as in the case of the physically-settled transactions described above. Under these credit default swaps:

- Each time a "triggering event" occurs a "loss amount" is calculated. A triggering event is generally a failure by the relevant obligor to pay principal of or, in some cases, interest on one of the reference credits in the underlying protected basket. Triggering events may also include bankruptcy of reference credits, write-downs or postponements with respect to interest or to the principal amount of a reference credit payable at maturity. The determination of the loss amount is specific to each triggering event. It can represent the amount of a shortfall in ordinary course interest payments on the reference credit, a write-down in the interest on or principal of such reference credit or any amount postponed in respect thereof. It can also represent the difference between the notional or par amount of such reference credit and its market value, as determined by reference to market quotations.
- Triggering events can occur multiple times, either as a result of continuing shortfalls in interest or write-downs or postponements on a single reference credit, or as a result of triggering events in respect of different reference credits included in a protected basket. In connection with each triggering event, AIGFP is required to make a cash payment to the buyer of protection under the related CDS only if the aggregate loss amounts calculated in respect of such triggering event and all prior triggering events exceed a specified threshold amount (reflecting AIGFP's attachment point). In addition, AIGFP is typically entitled to receive amounts recovered, or deemed recovered, in respect of loss amounts resulting from triggering events caused by interest shortfalls, postponements or write-downs on reference credits.
- To the extent that there are reimbursements received (actual or deemed) by the CDS buyer in respect of prior triggering events, AIGFP will be entitled to receive equivalent amounts from the counterparty to the extent AIGFP has previously made a related payment.

2a-7 Puts. Included in the multi-sector CDO portfolio are maturity-shortening puts with a net notional amount of $4.9 billion as of September 30, 2008 that allow the holders of the securities issued by certain CDOs to treat the securities as short-term eligible 2a-7 investments under the Investment Company Act of 1940 (2a-7 Puts). The general terms of these transactions differ from those referenced above. Holders of securities are required, in certain circumstances, to tender their securities to the issuers at par. If an issuer's remarketing agent is unable to resell the securities so tendered, AIGFP must purchase the securities at par as long as the security has not experienced a payment default or certain bankruptcy events with respect to the issuer of such security have not occurred. During the nine-month period ended September 30, 2008, AIGFP repurchased securities with a principal amount of approximately $6.6 billion in connection with these obligations, of which $5.4 billion were funded using existing liquidity facilities. AIGFP repurchased securities with a principal amount of approximately $1.4 billion from September 30, 2008 to October 27, 2008, which were funded using existing liquidity facilities. AIGFP expects to repurchase within the next two years the majority of securities under the remaining 2a-7 Puts having a net notional exposure of $3.5 billion at October 27, 2008. In certain transactions, AIGFP has contracted with third parties to provide liquidity for the purchase of such securities if they are put to AIGFP for up to a three-year period. Such unused liquidity facilities

totaled $1.7 billion at October 27, 2008. AIG expects to use these facilities to fund future purchases of these securities.

Termination Events. A majority of the super senior credit default swaps written on multi-sector CDOs provide the counterparties with an additional termination right once AIG's rating level falls to BBB or Baa. At that level, counterparties have the right to terminate the transactions early. This aggregate net notional amount of such super senior credit default swaps written on multi-sector CDOs is approximately $47.8 billion as of October 27, 2008. If counterparties exercise this right, the contracts provide for the counterparties to be compensated for the cost to replace the trades, or an amount reasonably determined in good faith to estimate the losses the counterparties would incur as a result of the termination of the trades.

Many of the super senior credit default swaps written for regulatory capital relief, having a net notional amount of $130 billion, include triggers that require certain actions to be taken by AIG upon such a downgrade, which, if not taken, will give rise to a right of the counterparties to terminate the swaps. Such actions include posting collateral, transferring the swap or providing a guarantee from a more highly rated entity. Through October 27, 2008, AIGFP has elected to post collateral in such cases, and, as a result, the counterparty has not had the right to terminate the swaps.

Given the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise, AIG is unable to reasonably estimate the aggregate amount that it would be required to pay under the super senior credit default swaps in the event of any such downgrade.

Collateral

Most of AIGFP's credit default swaps are subject to collateral posting provisions. These provisions differ among counterparties and asset classes. Although AIGFP has collateral posting obligations associated with both regulatory capital relief transactions and arbitrage transactions, the large majority of these obligations are associated with arbitrage transactions in respect of multi-sector CDOs.

The collateral arrangements in respect of the multi-sector CDO, regulatory capital and corporate arbitrage transactions are nearly all documented under a Credit Support Annex (CSA) to an International Swaps and Derivatives Association, Inc (ISDA) Master Agreement (Master Agreement). The Master Agreement and CSA forms are standardized form agreements published by the ISDA, which market participants have adopted as the primary contractual framework for various kinds of derivatives transactions, including CDS. The Master Agreement and CSA forms are designed to be customized by counterparties to accommodate their particular requirements for the anticipated types of swap transactions to be entered into. Elective provisions and modifications of the standard terms are negotiated in connection with the execution of these documents. The Master Agreement and CSA permit any provision contained in these documents to be further varied or overridden by the individual transaction confirmations, providing flexibility to tailor provisions to accommodate the requirements of any particular transaction. A CSA, if agreed by the parties to a Master Agreement, supplements and forms part of the Master Agreement and contains provisions (among others) for the valuation of the covered transactions, the delivery and release of collateral, the types of acceptable collateral, the grant of a security interest (in the case of a CSA governed by New York law) or the outright transfer of title (in the case in a CSA governed by English law) in the collateral that is posted, the calculation of the amount of collateral required, the valuation of the collateral provided, the timing of any collateral demand or return, dispute mechanisms, and various other rights, remedies and duties of the parties with respect to the collateral provided.

In general, each party has the right under a CSA to act as the "Valuation Agent" and initiate the calculation of the exposure of one party to the other (Exposure) in respect of transactions covered by the CSA. The valuation calculation may be performed daily, weekly or at some other interval, and the frequency is one of the terms negotiated at the time the CSA is signed. The definition of Exposure under a standard CSA is the amount that would be payable to one party by the other party upon a hypothetical termination of that transaction. This amount is determined, in most cases, by the Valuation Agent using its estimate of mid-market quotations (i.e., the average of hypothetical bid and ask quotations) of the amounts that would be paid for a replacement transaction. AIGFP determines Exposure typically by reference to the mark-to-market valuation of the relevant transaction produced by its systems and specialized models. Exposure amounts are typically determined for all transactions under a Master Agreement (unless the parties have specifically agreed to exclude certain transactions, not to apply the CSA or to set a specific transaction Exposure to zero). The aggregate Exposure less the value of collateral already held by the relevant party (and following application of certain thresholds) results in a net exposure amount (Delivery Amount). If this amount is a positive number, then the other party must deliver collateral with a value equal to the Delivery Amount. Under the standard CSA, the party not acting as Valuation Agent for any particular Exposure calculation may dispute the Valuation Agent's calculation of the Delivery Amount. If the parties are unable to resolve this dispute, the terms of the standard CSA provide that the Valuation Agent is required to recalculate Exposure using, in substitution for the disputed Exposure amounts, the average of actual quotations at mid-market from four leading dealers in the relevant market.

Regulatory Capital Transactions

As of September 30, 2008, approximately 27 percent of AIGFP's regulatory capital transactions (measured by net notional amount) were subject to a CSA. In other transactions, which represent approximately 39 percent of the total net notional amount of the outstanding regulatory capital transactions, AIGFP is obligated to put a CSA or alternative collateral arrangement in place if AIG's ratings fall below certain levels (typically, AA-/Aa3). In light of the rating actions taken in respect of AIG on September 15, 2008, AIGFP has implemented a CSA or alternative collateral arrangement in a large majority of these transactions. In some cases, AIGFP may not reach agreement with a counterparty on the terms of a collateral arrangement, and as a result, the counterparty may be entitled to terminate the transaction. In general, each regulatory capital transaction is subject to a stand-alone Master Agreement or similar agreement, which means that aggregate Exposure for the given Master Agreement or similar agreement is calculated only with reference to a single transaction.

There are diverse mechanisms for calculating Exposure in these transactions. A small minority relies on the standard CSA approach described above under "Collateral"; the large majority uses a formula to calculate Exposure. In most cases, the formula is unique to that transaction or counterparty. These unique formulas typically depend on either credit ratings (including the ratings of AIG and, in some cases, the ratings of notes that have been issued with respect to different tranches of the transaction), rating agency expected loss models, or changes in spreads on identified credit indices (but do not depend on the value of any underlying reference obligations).

Arbitrage Portfolio — Multi-Sector CDOs

In the large majority of the CDS transactions in respect of multi-sector CDOs, the standard CSA provisions for the calculation of Exposure have been modified, with the Exposure amount determined pursuant to an agreed formula that is based on the difference between the net notional amount of such transaction and the market value of the relevant underlying CDO security, rather than the replacement value of the transaction. In cases where a formula is utilized, a transaction-specific threshold is generally factored into the calculation of Exposure, which reduces the amount of collateral required to be posted. These thresholds typically vary based on the credit ratings of AIG and/or the reference obligations, with greater posting obligations arising in the context of lower ratings. For the large majority of counterparties to these transactions, the Master Agreement and CSA cover non-CDS transactions (e.g., interest rate and cross currency swap transactions) as well as CDS transactions.

Arbitrage Portfolio — Corporate Debt/CLOs

Almost all of AIGFP's corporate arbitrage transactions are subject to CSAs. Approximately 47 percent (measured by net notional amount) of these transactions contain no special collateral posting provisions, but are subject to a Master Agreement that includes a CSA. These transactions are treated the same as other trades subject to the same Master Agreement and CSA, with the calculation of collateral in accordance with the standard CSA procedures outlined above. Approximately 53 percent (measured by net notional amount) of these transactions, although subject to a Master Agreement and CSA, have specific valuation and threshold provisions. These thresholds are typically based on a combination of the credit rating of AIG and a Moody's model rating of the transaction (and not based on the value of any underlying reference obligations). Thus, as long as AIG maintains a rating above a specified threshold and the Moody's model of the underlying transaction exceeds a specified rating, the collateral provisions do not apply.

Collateral Calls

AIGFP has received collateral calls from counterparties in respect of certain super senior credit default swaps, of which a large majority relate to multi-sector CDOs. To a significantly lesser extent, AIGFP has also received collateral calls in respect of certain super senior credit default swaps entered into by counterparties for regulatory capital relief purposes and in respect of corporate debt/CLOs. Frequently, valuation estimates made by counterparties with respect to certain super senior credit default swaps or the underlying reference CDO securities, for purposes of determining the amount of collateral required to be posted by AIGFP in connection with such instruments, have differed, at times significantly, from AIGFP's estimates. In almost all cases, AIGFP has been able to successfully resolve the differences or otherwise reach an accommodation with respect to collateral posting levels, including in certain cases by entering into compromise collateral arrangements. Due to the ongoing nature of these collateral calls, AIGFP may engage in discussions with one or more counterparties in respect of these differences at any time. As of September 30, 2008, AIGFP had either agreed to post or posted collateral based on exposures, calculated in respect of super senior credit default swaps, in an aggregate net amount of $32.8 billion. Valuation estimates made by counterparties for collateral purposes were, like any other third-party valuation, considered in the determination of the fair value estimates of AIGFP's super senior credit default swap portfolio.

Through June 30, 2007, AIGFP had not received any collateral calls related to this credit default swap portfolio. Since that date and through October 27, 2008, counterparties have made large collateral calls against AIGFP, in particular related to the multi-sector CDO portfolio. This was largely driven by deterioration in the market value of the reference obligations. As of July 31, 2008, AIGFP had either agreed to

post or posted collateral based on exposures, calculated in respect of super senior credit default swaps, in an aggregate net amount of $16.5 billion. Since that date and up to November 5, 2008, AIG has agreed to post or posted an additional $23.4 billion, for a total of $39.9 billion, resulting from continued deterioration in the market valuation of the referenced obligations, rating downgrades of reference obligations and the downgrade of AIG's ratings. The amount of future collateral posting requirements is a function of AIG's credit ratings, the rating of the reference obligations and any further decline in the market value of the relevant reference obligations, with the latter being the most significant factor. Given the severe market disruption, lack of observable data and the uncertainty regarding the potential effects on market prices of the TARP and other measures recently undertaken by the federal government to address the credit market disruption, AIGFP is unable to reasonably estimate the amounts of collateral that it would be required to post. The maximum amount of collateral that AIGFP could be required to post is the net notional amount of the super senior credit default swap portfolio.

Models and Modeling

AIGFP values its credit default swaps written on the most senior (super senior) risk layers of designated pools of debt securities or loans using internal valuation models, third-party prices and market indices. The principal market was determined to be the market in which super senior credit default swaps of this type and size would be transacted, or have been transacted, with the greatest volume or level of activity. AIG has determined that the principal market participants, therefore, would consist of other large financial institutions who participate in sophisticated over-the-counter derivatives markets. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices.

The valuation of the super senior credit derivatives continues to be challenging given the limitation on the availability of market observable information due to the lack of trading and price transparency in the structured finance market, particularly during and since the fourth quarter of 2007. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants and the varying judgments reached by such participants when assessing volatile markets have increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

AIGFP's valuation methodologies for the super senior credit default swap portfolio have evolved in response to the deteriorating market conditions and the lack of sufficient market observable information. AIG has sought to calibrate the model to available market information and to review the assumptions of the model on a regular basis.

Arbitrage Portfolio — Multi-Sector CDOs

The underlying assumption of the valuation methodology for AIGFP's credit default swap portfolio wrapping multi-sector CDOs is that, to be willing to assume the obligations under a credit default swap, a market participant would require payment of the full difference between the cash price of the underlying tranches of the referenced securities portfolio and the net notional amount specified in the credit default swap.

AIGFP uses a modified version of the Binomial Expansion Technique (BET) model to value its credit default swap portfolio written on super senior tranches of CDOs of ABS, including the 2a-7 Puts. The BET model was developed in 1996 by a major rating agency to generate expected loss estimates for CDO tranches and derive a credit rating for those tranches, and has been widely used ever since.

AIG selected the BET model for the following reasons:

- it is known and utilized by other institutions;
- it has been studied extensively, documented and enhanced over many years;
- it is transparent and relatively simple to apply;
- the parameters required to run the BET model are generally observable; and
- it can easily be modified to use probabilities of default and expected losses derived from the underlying collateral securities market prices instead of using rating-based historical probabilities of default.

The BET model has certain limitations. A well known limitation of the BET model is that it can understate the expected losses for super senior tranches when default correlations are high. The model uses correlations implied from diversity scores which do not capture the tendency for correlations to increase as defaults increase. Recognizing this concern, AIG tested the sensitivity of the valuations to the diversity scores. The results of the testing demonstrated that the valuations are not very sensitive to the diversity scores because the expected losses generated from the prices of the collateral pool securities are currently high, breaching the attachment point in most transactions. Once the attachment point is breached by a sufficient amount, the diversity scores, and their implied correlations, are no longer a significant driver of the valuation of a super senior tranche.

AIGFP has adapted the BET model to estimate the price of the super senior risk layer or tranche of the CDO. AIG modified the BET model to imply default probabilities from market prices for the underlying securities and not from rating agency assumptions. To generate the estimate, the model uses the prices for the securities comprising the portfolio of a CDO as an input and converts those prices to credit spreads over current LIBOR-based interest rates. These credit spreads are used to determine implied probabilities of default and

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expected losses on the underlying securities. This data is then aggregated and used to estimate the expected cash flows of the super senior tranche of the CDO.

The application of the modified BET model involves the following steps for each individual super senior tranche of a CDO in the portfolio:

1) Calculation of the cash flow pattern that matches the weighted average life for each underlying security of the CDO;
2) Calculation of an implied credit spread for each security from the price and cash flow pattern determined in step 1. This is an arithmetic process which converts prices to yields (similar to the conversion of United States Treasury security prices to yields), and then subtracts LIBOR-based interest rates to determine the credit spreads;
3) Conversion of the credit spread into its implied probability of default. This also is an arithmetic process that determines the assumed level of default on the security that would equate the present value of the expected cash flows discounted at a risk free rate with the present value of the contractual cash flows discounted using LIBOR-based interest rates plus the credit spreads;
4) Generation of expected losses for each underlying security using the probability of default and recovery rate;
5) Aggregation of the cash flows for all securities to create a cash flow profile of the entire collateral pool within the CDO;
6) Division of the collateral pool into a number of hypothetical independent identical securities based on the CDO's diversity score so that the cash flow effects of the portfolio can be mathematically aggregated properly. The purpose of dividing the collateral pool into hypothetical securities is a simplifying assumption used in all BET models as part of a statistical technique that aggregates large amounts of homogeneous data;
7) Simulation of the default behavior of the hypothetical securities using a Monte Carlo simulation and aggregation of the results to derive the effect of the expected losses on the cash flow pattern of the super senior tranche taking into account the cash flow diversion mechanism of the CDO;
8) Discounting of the expected cash flows determined in step 7 using LIBOR-based interest rates to estimate the value of the super senior tranche of the CDO; and
9) Adjustment of the model value for the super senior multi-sector CDO credit default swap for the effect of the risk of non-performance by AIG using the credit spreads of AIG available in the marketplace and considering the effects of collateral and master netting arrangements.

AIGFP employs a Monte Carlo simulation in step 7 above to assist in quantifying the effect on the valuation of the CDO of the unique aspects of the CDO's structure such as triggers that divert cash flows to the most senior part of the capital structure. The Monte Carlo simulation is used to determine whether an underlying security defaults in a given simulation scenario and, if it does, the security's implied random default time and expected loss. This information is used to project cash flow streams and to determine the expected losses of the portfolio.

In addition to calculating an estimate of the fair value of the super senior CDO security referenced in the credit default swaps using its internal model, AIGFP also considers the price estimates for the super senior CDO securities provided by third parties, including counterparties to these transactions, to validate the results of the model and to determine the best available estimate of fair value. In determining the fair value of the super senior CDO security referenced in the credit default swaps, AIGFP uses a consistent process which considers all available pricing data points and eliminates the use of outlying data points. When pricing data points are within a reasonable range an averaging technique is applied.

The following table presents the net notional amount and fair value derivative liability of the multi-sector super senior credit default swap portfolio using AIGFP's fair value methodology at September 30, 2008:

(in millions)	Net Notional Amount	Fair Value Derivative Liability at September 30, 2008
BET model	$ 9,010	$ 3,920
Third party price	21,050	9,297
Average of BET model and third party price	36,966	15,185
Other	4,618	1,805
Total	$71,644	$30,207

The fair value derivative liability of $30.2 billion recorded on AIGFP's super senior multi-sector CDO credit default swap portfolio represents the cumulative change in fair value of these derivatives, which represents AIG's best estimate of the amount it would need to pay to a willing, able and knowledgeable third party to assume the obligations under AIGFP's super senior multi-sector credit default swap portfolio as of September 30, 2008.

Arbitrage Portfolio — Corporate Debt/CLOs

The valuation of credit default swaps written on portfolios of investment-grade corporate debt and CLOs is less complex than the valuation of super senior multi-sector CDO credit default swaps and the valuation inputs are more transparent and readily available.

In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIGFP estimates the fair value of its obligations by comparing the contractual premium of each contract to the current market levels of the

senior tranches of comparable credit indices, the iTraxx index for European corporate issuances and the CDX index for U.S. corporate issuances. These indices are considered reasonable proxies for the referenced portfolios. In addition, AIGFP compares these valuations to third party prices and makes adjustments as necessary to determine the best available estimate of fair value.

AIGFP estimates the fair value of its obligations resulting from credit default swaps written on CLOs to be equivalent to the par value less the current market value of the referenced obligation. Accordingly, the value is determined by obtaining third-party quotes on the underlying super senior tranches referenced under the credit default swap contract.

No assurance can be given that the fair value of AIGFP's arbitrage credit default swap portfolio would not change materially if other market indices or pricing sources were used to estimate the fair value of the portfolio.

Regulatory Capital Portfolio

In the case of credit default swaps written to facilitate regulatory capital relief, AIGFP estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG expects that the majority of these transactions will be terminated within the next 6 to 18 months by AIGFP's counterparties. From January 1, 2008 through September 30, 2008, $94.9 billion in net notional exposures have been terminated. Since that date and through October 27, 2008, $4.5 billion in net notional exposures have been terminated. AIGFP has not been required to make any payments as part of these terminations and in certain cases was paid a fee upon termination. In all cases, terminations were initiated by the counterparties prior to the transactions maturing. AIGFP also considers other market data, to the extent relevant and available.

In light of early termination experience to date and after other analyses, AIG determined that there was no unrealized market valuation adjustment for this regulatory capital relief portfolio for the nine-month period ended September 30, 2008 other than for one transaction where AIGFP believes the counterparty is no longer using the transaction to obtain regulatory capital relief. During the second quarter of 2008, a regulatory capital relief transaction with a net notional amount of $1.6 billion and a fair value loss of $125 million was not terminated as expected when it no longer provided regulatory capital benefit to the counterparty. This transaction provided protection on an RMBS, unlike the other regulatory transactions, which provide protection on loan portfolios held by the counterparties. The documentation for this transaction contains provisions not included in AIGFP's other regulatory capital relief transactions, which enable the counterparty to arbitrage a specific credit exposure.

AIG will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Given the significant deterioration in the credit markets and the risk that AIGFP's expectations with respect to the termination of these transactions by its counterparties may not materialize, there can be no assurance that AIG will not recognize unrealized market valuation losses from this portfolio in future periods, and recognition of even a small percentage decline in the fair value of this portfolio could be material to AIG's consolidated results of operations for an individual reporting period or to AIG's consolidated financial condition.

Key Assumptions Used in the BET model — Multi-Sector CDOs

The most significant assumption used in the BET model is the pricing of the individual securities within the CDO collateral pools. The following table summarizes the gross transactional notional weighted average price at June 30, 2008 and September 30, 2008, by ABS category.

ABS Category	Gross Transaction Notional Weighted Average Price September 30, 2008	Gross Transaction Notional Weighted Average Price June 30, 2008
RMBS Prime	71.54%	81.23%
RMBS Alt-A	46.12	58.06
RMBS Subprime	38.83	48.44
CMBS	81.40	87.46
CDOs	29.83	32.24
Other	78.36	85.03
Total	52.33%	60.38%

The decrease in the weighted average prices reflects continued deterioration in the markets for RMBS and CMBS and further downgrades in RMBS and CMBS credit ratings.

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. For the quarter ended September 30, 2008, CDO collateral managers provided market prices for approximately 70 percent of the underlying securities. When a price for an individual security is not provided by a CDO collateral manager, AIGFP derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third party pricing services.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates. The determination of some of these inputs requires the use of judgment

and estimates, particularly in the absence of market observable data. Diversity scores (which reflect default correlations between the underlying securities of a CDO) are obtained from CDO trustees or implied from default correlations. Weighted average lives of the underlying securities are obtained, when available, from external subscription services such as Bloomberg and Intex and, if not available, AIGFP utilizes an estimate reflecting known weighted average lives. Collateral recovery rates are obtained from the multi-sector CDO recovery data of a major rating agency. AIGFP utilizes a LIBOR-based interest rate curve to derive its discount rates.

AIGFP employs similar control processes to validate these model input as those used to value AIG's investment portfolio as described in Critical Accounting Estimates — Fair Value Measurements of Certain Financial Assets and Liabilities — Overview. The effects of the adjustments resulting from the validation process were de minimis for each period presented.

Valuation Sensitivity — Arbitrage Portfolio

Multi-Sector CDOs

AIG utilizes sensitivity analyses that estimate the effects of using alternative pricing and other key inputs on AIG's calculation of the unrealized market valuation loss related to the AIGFP super senior credit default swap portfolio. While AIG believes that the ranges used in these analyses are reasonable, given the current difficult market conditions, AIG is unable to predict which of the scenarios is most likely to occur. Actual results in any period are likely to vary, perhaps materially, from the modeled scenarios, and there can be no assurance that the unrealized market valuation loss related to the AIGFP super senior credit default swap portfolio will be consistent with any of the sensitivity analyses.

For the purposes of estimating sensitivities for the super senior multi-sector CDO credit default swap portfolio, the change in valuation derived using the BET model is used to estimate the change in the fair value of the derivative liability. As mentioned above, the most significant assumption used in the BET model is the pricing of the securities within the CDO collateral pools. If the actual pricing of the securities within the collateral pools differs from the pricing used in estimating the fair value of the super senior credit default swap portfolio, there is potential for material variation in the fair value estimate. A decrease by five points (for example, from 87 cents per dollar to 82 cents per dollar) in the aggregate price of the underlying collateral securities would increase the fair value derivative liability by approximately $3.7 billion, while an increase in the aggregate price of the underlying collateral securities by five points (for example, from 90 cents per dollar to 95 cents per dollar) would reduce the fair value derivative liability by approximately $3.8 billion. Any further declines in the value of the underlying collateral securities held by a CDO will similarly affect the value of the super senior CDO securities given their significantly depressed valuations. Given the current difficult market conditions, AIG cannot predict reasonably likely changes in the prices of the underlying collateral securities held within a CDO at this time.

The following table presents other key inputs used in the BET model, and the potential increase (decrease) to the fair value of the derivative liability at September 30, 2008 corresponding to changes in these key inputs:

(in millions)	Increase (Decrease) To Fair Value Derivative Liability
Weighted average lives	
Effect of an increase of 1 year	$ 426
Effect of a decrease of 1 year	(968)
Recovery rates	
Effect of an increase of 10%	(21)
Effect of a decrease of 10%	119
Diversity scores	
Effect of an increase of 5	(80)
Effect of a decrease of 5	207
Discount curve	
Effect of an increase of 100 basis points	158

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by AIG for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

Corporate Debt

The following table represents the relevant market credit indices and index CDS maturity used to estimate the sensitivity for the credit default swap portfolio written on investment-grade corporate debt and the estimated increase (decrease) to the fair value of the derivative liability at September 30, 2008 corresponding to changes in these market credit indices and maturity:

(in millions)			Increase (Decrease) To Fair Value Derivative Liability
CDS maturity (in years)	5	7	10
CDX Index			
Effect of an increase of 10 basis points	$(19)	$(46)	$ (9)
Effect of a decrease of 10 basis points	19	46	9
iTraxx Index			
Effect of an increase of 10 basis points	(9)	(32)	(7)
Effect of a decrease of 10 basis points	9	32	7

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the indices and maturity will not exceed, perhaps significantly, the ranges assumed by AIGFP for purposes of the above

analysis. No assumption should be made that results calculated from the use of other changes in these indices and maturity can be interpolated or extrapolated from the results set forth above.

Stress Testing of Potential Realized Credit Losses — Multi-Sector CDOs

In addition to performing sensitivity analyses around the valuation of the AIGFP super senior credit default swap portfolio, AIG performed a roll rate analysis to stress the AIGFP super senior multi-sector CDO credit default swap portfolio for potential pre-tax realized credit losses without taking into consideration either sales of securities or early terminations of the contracts. Credit losses represent the shortfall of principal and/or interest cash flows on the referenced super senior risk layers underlying the portfolio.

Two scenarios illustrated in this process resulted in potential pre-tax realized credit losses of approximately $7.8 billion (Scenario A) and approximately $12.0 billion (Scenario B). Comparable amounts at June 30, 2008 were $5.0 billion and $8.5 billion, respectively. At September 30, 2008, AIG used the same set of roll rate and loss severity assumptions in its roll rate analysis as those used at June 30, 2008. However, the estimated potential credit losses illustrated by Scenarios A and B increased significantly over the amounts reported at June 30, 2008. The increases in the estimated potential credit losses were principally attributable to three factors:

- approximately $1.5 billion in each scenario was attributable to the increase in the LIBOR interest rate, caused by tight money market conditions, which increased the modeled amounts of cash flow diversion to lower rated tranches within the multi-sector CDOs;
- approximately $600 million in scenario A and $700 million in scenario B were attributable to enhancements used in the analysis to reflect more accurately the attributes of the portfolio; and
- approximately $600 million in scenario A and $1.2 billion in scenario B were due to larger actual delinquencies in the performing mortgage pools and greater credit deterioration in other collateral securities.

Other factors, such as applying the pool losses determined based on the above factors up through the capital structures of the RMBS as well as the cash flow waterfall effects within the CDOs, account for the remainder of the increase.

The significant assumptions for subprime mortgages used in Scenario A are provided below. Scenario B illustrates the effect of a 20 percent relative increase (but not in excess of 100 percent) in all Scenario A roll rate default frequency assumptions and in all Scenario A loss severity assumptions across all mortgage collateral (for example, 60 percent increased to 72 percent). Actual ultimate realized credit losses are likely to vary, perhaps materially, from these scenarios, and there can be no assurance that the ultimate realized credit losses related to the AIGFP super senior multi-sector CDO credit default swap portfolio will be consistent with either scenario or that such realized credit losses will not exceed the potential realized credit losses illustrated by Scenario B.

In the second quarter of 2008, AIG stressed the AIGFP super senior multi-sector CDO credit default swap portfolio using the roll rate analysis enhanced to apply to all RMBS collateral including subprime, Alt-A and prime residential mortgages that comprise the subprime, Alt-A and prime RMBS. This analysis assumed that certain percentages of actual delinquent mortgages will roll into default and foreclosure. It also assumed that certain percentages of non-delinquent mortgages will become delinquent and default over time, with those delinquency percentages depending on the age of the mortgage pool. To those assumed defaults AIG applied loss severities (one minus recovery) to derive estimated ultimate losses for each mortgage pool comprising a subprime, Alt-A and prime RMBS. Because subprime, Alt-A and prime RMBS have differing characteristics, the roll rates and loss severities differed. AIG then estimated tranche losses from these roll rate losses by applying the pool losses up through the capital structure of the RMBS. In this estimate of tranche losses, AIG introduced in the second quarter of 2008 an enhancement to the roll rate analysis to take into account the cash flow waterfall and to capture the potential effects, both positive and negative, of cash flow diversion within each CDO. To these estimated subprime, Alt-A and prime RMBS losses AIG added estimated credit losses on the inner CDOs and other ABS, such as CMBS, credit card and auto loan ABS held by the CDOs, calculated by using rating-based static percentages, in the case of inner CDOs varying by vintage and type of CDO, and, in the case of other ABS, by rating. In addition to the foregoing, the analysis incorporates the effects of certain other factors such as mortgage prepayment rates, excess spread and delinquency triggers.

Subprime RMBS comprise the majority of collateral securities within the multi-sector CDOs. Given adverse real estate market conditions, subprime mortgage losses comprise the largest percentage of AIG's pre-tax credit impairment losses in scenarios A and B.

The roll rate analysis, as mentioned above, consists of projecting credit losses by projecting mortgage defaults and applying loss severities to these defaults. Mortgage defaults are estimated by applying roll rate frequencies to each segment of existing delinquent mortgages and by using loss timing curves to forecast future defaults from currently performing mortgages.

The roll rate default frequency assumptions for subprime mortgages by vintage used in the scenario A roll rate analysis are as follows:

Segment	Pre-2005	2005	2006	2007
30+ days delinquent	60%	70%	80%	80%
60+ days delinquent	70%	80%	80%	80%
90+ days delinquent + borrower bankruptcies	70%	80%	90%	90%
Foreclosed/REO mortgages	100%	100%	100%	100%

The subprime mortgage loss severity assumptions by vintage used in the scenario A roll rate analysis are as follows:

Pre 2H 2004	2H 2004	1H 2005	2H 2005	2006/2007
50%	50%	55%	55%	60%

Prior to June 30, 2008, AIG conducted risk analyses of the AIGFP super senior multi-sector CDO credit default swap portfolio using certain ratings-based static stress tests, which centered around scenarios of further stress on the portfolio resulting from downgrades by the rating agencies from current levels on the underlying collateral in the CDO structures supported by AIGFP's credit default swaps. During the first quarter of 2008, AIG developed and implemented its roll rate analysis. Commencing in the second quarter of 2008, AIG discontinued use of the rating-based static stress test and used only the roll rate stress test because it believed that the roll rate stress test provided a more reasonable methodology to illustrate potential realized credit losses than the rating-based static stress test used previously.

Due to the dislocation in the market for CDO and RMBS collateral, AIG does not use the market values of the underlying CDO collateral in estimating its potential realized credit losses. The use of factors derived from market-observable prices in models used to determine the estimates for future realized credit losses could result in materially higher estimates of potential realized credit losses.

Under the terms of most of these credit derivatives, credit losses to AIG would generally result from the credit impairment of the referenced obligations that AIG would acquire in extinguishing its swap obligations. Other types of analyses or models could result in materially different estimates. AIG is aware that other market participants have used different assumptions and methodologies to estimate the potential realized credit losses on AIGFP's super senior multi-sector CDO credit default swap portfolio, resulting in significantly higher estimates than those resulting from AIG's roll rate stress testing scenarios. Actual ultimate realized credit losses are likely to vary, perhaps materially, from AIG's roll rate stress testing scenarios, and there can be no assurance that the ultimate realized credit losses related to the AIGFP super senior multi-sector CDO credit default swap portfolio will be consistent with either scenario or that such realized credit losses will not exceed the potential realized credit losses illustrated by Scenario B.

The potential realized credit losses illustrated in Scenarios A and B are lower than the $30.2 billion fair value derivative liability of AIGFP's super senior multi-sector CDO credit default swap portfolio at September 30, 2008. The fair value of AIGFP's super senior multi-sector CDO credit default swap portfolio is based upon fair value accounting principles, which rely on third-party prices for both the underlying collateral securities and the CDOs that AIGFP's super senior credit default swaps wrap. These prices currently incorporate liquidity premiums, risk aversion elements and credit risk modeling, which in some instances may use more conservative assumptions than those used by AIG in its roll rate stress testing. Due to the ongoing disruption in the U.S. residential mortgage market and credit markets and the downgrades of RMBS and CDOs by the rating agencies, the market continues to lack transparency around the pricing of these securities. These prices are not necessarily reflective of the ultimate potential realized credit losses AIGFP could incur in the future related to the AIGFP super senior multi-sector CDO credit default swap portfolio, and AIG believes they incorporate a significant amount of market-driven risk aversion.

Other derivatives. Valuation models that incorporate unobservable inputs initially are calibrated to the transaction price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates, credit spreads, volatilities, etc.). Model inputs are changed only when corroborated by market data.

Transfers into Level 3

During the three-months ended September 30, 2008, AIG transferred from Level 2 to Level 3 approximately $7.1 billion of assets, primarily representing fixed maturity securities for which the significant inputs used to measure the fair value of the securities became unobservable primarily as a result of the significant disruption in the credit markets. See Note 3 to the Consolidated Financial Statements for additional information about transfers into Level 3.

Valuation Controls

AIG is actively implementing its remediation plan to address the material weakness in internal control relating to the fair value valuation of the AIGFP super senior credit default swap portfolio, and oversight thereof as described in Item 9A. of the 2007 Annual Report on Form 10-K. AIG is developing new systems and processes to reduce reliance on certain manual controls that have been established as compensating controls over valuation of this portfolio and in other areas, and is strengthening the resources required to remediate this weakness. Notwithstanding this need to continue strengthening these controls, AIG has an oversight structure that includes appropriate segregation of duties with respect to the valuation of its financial instruments. Senior management, independent of the trading and investing functions, is responsible for the

oversight of control and valuation policies and for reporting the results of these controls and policies to AIG's Audit Committee. AIG employs procedures for the approval of new transaction types and markets, price verification, periodic review of profit and loss, and review of valuation models by personnel with appropriate technical knowledge of relevant products and markets. These procedures are performed by personnel independent of the trading and investing functions. For valuations that require inputs with little or no market observability, AIG compares the results of its valuation models to actual subsequent transactions.

Capital Resources and Liquidity

Liquidity

During the third quarter of 2008, AIG experienced liquidity issues as described under Current Events Related to Liquidity. As a result of these events, AIG, ILFC and AGF have not had access to their traditional sources of long-term or short-term financing through the public debt markets. AIG parent's sources of liquidity currently consist of borrowings under the Fed Facility, issuances of commercial paper under the CPFF and borrowings under its other revolving credit facilities and dividends, distributions and other payments from its subsidiaries.

On November 10, 2008, AIG announced several transactions that will help stabilize AIG's liquidity. Subject to the issuance of the Series D Preferred Shares described below, the Fed Credit Agreement will be amended to, among other things:

- provide that the total commitment under the Fed Facility following the issuance of the Series D Preferred Shares shall be $60 billion;
- reduce the interest rate payable on outstanding borrowings under the Fed Facility from three-month LIBOR (not less than 3.5 percent) plus 8.5 percent per annum to three-month LIBOR (not less than 3.5 percent) plus 3.0 percent per annum;
- reduce the fee payable on undrawn amounts from 8.5 percent per annum to 0.75 percent per annum;
- reduce the number of shares of common stock of AIG to be issued upon conversion of the Series C Preferred Stock to be held by the Trust to 77.9 percent; and
- extend the term of the Fed Facility from two years to five years.

Pursuant to an agreement, AIG will issue $40 billion liquidation preference of Series D Preferred Shares and a 10-year warrant exercisable for shares of AIG common stock equal to 2 percent of the outstanding shares of common stock to the United States Treasury, the net proceeds of which will be used to repay a portion of the outstanding balance under the Fed Facility. AIG expects during the fourth quarter to form a limited liability company with the NY Fed that will acquire RMBS owned by certain AIG insurance company subsidiaries. These proceeds together with other AIG funds, will be used to return all cash collateral posted by securities borrowers, including approximately $19.9 billion to be returned to the NY Fed. After all collateral is returned, AIG's U.S. securities lending program will be terminated. AIG also expects during the fourth quarter to establish a limited liability company with the NY Fed that will purchase up to approximately $70 billion of the CDO exposures protected by AIGFP's multi-sector credit default swap portfolio. These actions are expected to:

- increase AIG's effective borrowing capacity under the Fed Facility;
- limit AIG's exposure to the RMBS securities in the securities lending pool; and
- limit AIG's exposure to the CDOs underlying its multi-sector credit default swap portfolio.

At the subsidiary level, in September 2008, both AGF and ILFC borrowed under their credit facilities ($4.6 billion and $6.5 billion, respectively) and certain U.S. life insurance companies entered into the Fed Securities Lending Agreement with the NY Fed.

Proceeds from announced asset sales are required to pay down the Fed Facility.

AIG Parent

At November 5, 2008, AIG parent had the following sources of liquidity:

- $24 billion of available borrowings under the September 22, 2008 Fed Facility;
- $5.6 billion of available commercial paper borrowings under all programs under the CPFF; and
- $3.8 billion of available borrowings under its revolving credit facilities, as described under Revolving Credit Facilities below.

As a result, AIG believes that it has sufficient liquidity at the parent level to meet its obligations through at least the next twelve months. However, no assurance can be given that AIG's cash needs will not exceed projected amounts. Additional collateral calls at AIGFP, a failure to consummate either the establishment of the RMBS limited liability company or CDO security limited liability company, a further downgrade of AIG's credit ratings or unexpected capital or liquidity needs of AIG's subsidiaries may result in significant cash needs. For a further discussion of this risk, see Item 1A. Risk Factors.

Domestic Life Insurance Companies

AIG's Domestic Life Insurance and Retirement Services companies have three primary liquidity needs: the funding of

surrenders; returning cash collateral under the securities lending program; and obtaining capital to offset other-than-temporary impairment charges. At the current rate of surrenders, AIG believes that its Domestic Life Insurance and Retirement Services companies will have sufficient resources to meet these obligations. A substantial increase in surrender activity could, however, place stress on the liquidity of these companies and require asset sales.

AIG’s securities lending payables totaled $34.2 billion at November 5, 2008. When necessary, the NY Fed is providing liquidity to the securities lending pool through borrowings of securities from the pool. AIG anticipates repaying the Fed Securities Lending Agreement in full upon the establishment of the limited liability company to repurchase the RMBS in the securities lending pool.

AIG parent contributed $16.6 billion to Domestic Life Insurance and Retirement Services companies during the first nine months of 2008, largely to offset the reduction in capital due to the significant other-than-temporary impairment charges. To the extent the investment portfolios of the Domestic Life Insurance and Retirement Services companies continue to be adversely affected by market conditions, AIG may need to make additional capital contributions to these companies.

Foreign Life Insurance Companies

AIG’s Foreign Life Insurance companies (including ALICO) have had significant capital needs following publicity of AIG parent’s liquidity issues and related credit ratings downgrades and reflecting the decline in the equity markets. AIG contributed $1.6 billion to the Foreign Life Insurance companies in September 2008, and $339 million in October 2008 to meet these needs. AIG expects to contribute approximately $1.4 billion to Nan Shan in November 2008.

AIG believes that its Foreign Life Insurance subsidiaries will have adequate capital to support their business plans through the remainder of 2008; however, to the extent the investment portfolios of the Foreign Life Insurance companies continue to be adversely affected by market conditions, AIG may need to make additional capital contributions to these companies.

Commercial Insurance Group

AIG expects CIG to be able to continue to meet its obligations as they come due through cash from operations and, to the extent necessary, asset dispositions. One or more large catastrophes, however, may require AIG to provide additional support to CIG.

AIG has provided letters of credit that totaled $5.7 billion at October 27, 2008, to allow subsidiaries of CIG to obtain admitted surplus credit for reinsurance provided by non-admitted carriers. Approximately $4.2 billion of these letters of credit will expire on December 31, 2008. The inability of AIG to renew or replace these letters of credit or otherwise obtain equivalent financial support would result in a significant reduction of the statutory surplus of these property and casualty companies and would require AIG to make additional capital contributions.

International Lease Finance Corporation

To assure maximum liquidity for its operations, ILFC borrowed the full amount available under its credit facilities, $6.5 billion, in September 2008. ILFC can also borrow up to $5.7 billion under the CPFF. At November 5, 2008, ILFC had borrowed $1.7 billion under the CPFF. Funding under the CPFF terminates in April 30, 2009, with funds outstanding at that date maturing through July 2009. In addition, ILFC is seeking secured financings. ILFC currently has the capacity under their present facilities and indentures to enter into secured financings in excess of $4.0 billion. AIG expects that these borrowings and cash flows from operations, which may include aircraft sales, will permit ILFC to meet its obligations through September 2009, after which AIG would rely upon additional asset sales and funding through the Fed Facility.

American General Finance

To assure maximum liquidity for its operations, AGF borrowed the full amount available under its primary credit facilities, $4.6 billion, in September 2008. AGF anticipates that its primary sources of funds to support its operations and repay its obligations will be finance receivable collections from operations, while limiting its lending activities and focusing on expense savings. In addition, AGF is seeking secured financing. AGF anticipates that its existing sources of funds will be sufficient to meet its debt and other obligations through the first quarter of 2009. At that time, AIG will need to find other sources of liquidity for AGF, including sales of AGF assets and funding through the Fed Facility.

AIGCFG

As a result of AIG parent’s liquidity issues and related credit ratings downgrades, AIGCFG experienced significant deposit withdrawals in Hong Kong during September 2008. AIGCFG subsidiaries borrowed $1.6 billion from AIG in September and October of 2008 to meet these withdrawals and other cash needs.

AIG believes that the funding needs of AIGCFG have stabilized, but it is possible that AIGCFG’s liquidity needs could increase substantially. AIG is working to sell these businesses on an expedited basis and believes that entering into sale agreements will help stabilize AIGCFG’s liquidity.

Debt maturities in next twelve months

The following sets forth AIG's debt maturities by quarter for the twelve months ended September 30, 2009:

(in billions)	4th Quarter 2008	1st Quarter 2009	2nd Quarter 2009	3rd Quarter 2009
Debt Maturities	$ 9	$ 3	$ 4	$12

AIG expects to meet these obligations through borrowings from the Fed Facility, sales of commercial paper pursuant to the CPFF, and cash received from subsidiaries. See Notes 4, 5, and 11 to the Consolidated Financial Statements for additional information regarding the terms of the Fed Credit Agreement and the Pledge Agreement.

Third Quarter and Nine Month Capital Resources and Liquidity

Borrowings outstanding and remaining available amount that can be borrowed under the Fed Facility were as follows:

(in millions)	Inception through September 30, 2008	Inception through November 5, 2008
Borrowings:		
Loans to AIGFP for collateral postings, GIA and other maturities	**$35,340**	**$43,100**
Capital contributions to insurance companies(a)	**13,341**	**13,687**
Repayment of obligations to securities lending program	**3,160**	**3,160**
AIG Funding commercial paper maturities	**2,717**	**3,714**
Repayment of intercompany loans	**1,528**	**1,528**
Contributions to AIGCFG subsidiaries	**1,094**	**1,591**
Debt repayments	**1,038**	**1,578**
Other borrowings(a)	**2,782**	**8,642**
Total borrowings	**61,000**	**77,000**
Repayments:		
Repayments not reducing available amounts	**–**	**16,000** *(b)*
Repayments reducing available amounts	**–**	**–**
Total repayments	**–**	**16,000**
Net borrowings	**61,000**	**61,000**
Total Fed Facility	**85,000**	**85,000**
Remaining available amount	**24,000**	**24,000**
Net borrowings	**61,000**	**61,000**
Paid in kind interest and fees	**1,960**	**1,960**
Total balance outstanding	**$62,960**	**$62,960**

(a) Includes securities lending activities.
(b) Includes repayments due to funds received from the Fed Securities Lending Agreement and the CPFF.

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Borrowings

AIG's total borrowings were as follows:

(in millions)	September 30, 2008	December 31, 2007
Borrowings issued by AIG:		
Fed Facility	$ 62,960	$ –
Notes and bonds payable	12,036	14,588
Junior subordinated debt	12,224	5,809
Junior subordinated debt attributable to equity units	5,880	–
Loans and mortgages payable	376	729
MIP matched notes and bonds payable	13,871	14,267
AIGFP matched notes and bonds payable	4,204	874
Total AIG borrowings	111,551	36,267
Borrowings guaranteed by AIG:		
AIGFP(a)		
GIAs	13,608	19,908
Notes and bonds payable	16,229	36,676
Loans and mortgages payable	6,627	1,384
Hybrid financial instrument liabilities(b)	2,685	7,479
Total AIGFP borrowings	39,149	65,447
AIG Funding, Inc. commercial paper	1,944	4,222
AIGLH notes and bonds payable	798	797
Liabilities connected to trust preferred stock	1,414	1,435
Total borrowings issued or guaranteed by AIG	154,856	108,168
Borrowings not guaranteed by AIG:		
ILFC		
Commercial paper	1,562	4,483
Junior subordinated debt	999	999
Notes and bonds payable(c)	32,005	25,737
Total ILFC borrowings	34,566	31,219
AGF		
Commercial paper and extendible commercial notes	1,918	3,801
Junior subordinated debt	349	349
Notes and bonds payable	24,098	22,369
Total AGF borrowings	26,365	26,519
AIGCFG		
Commercial paper	168	287
Loans and mortgages payable	2,035	1,839
Total AIGCFG borrowings	2,203	2,126
AIG Finance Taiwan Limited commercial paper	8	–
Other subsidiaries	694	775
Borrowings of consolidated investments:		
A.I. Credit(d)	–	321
AIG Investments	1,305	1,636
AIG Global Real Estate Investment	4,548	5,096
AIG SunAmerica	5	186
ALICO	–	3
Total borrowings of consolidated investments	5,858	7,242
Total borrowings not guaranteed by AIG	69,694	67,881
Consolidated:		
Total commercial paper and extendible commercial notes	5,600	13,114
Total long-term borrowings	218,950	162,935
Total borrowings	$ 224,550	$ 176,049

(a) In 2008, AIGFP borrowings are carried at fair value.
(b) Represents structured notes issued by AIGFP that are accounted for using the fair value option at 2008 and 2007.
(c) Includes borrowings under Export Credit Facility of $2.5 billion at September 30, 2008 and December 31, 2007, respectively.
(d) Represents commercial paper issued by a variable interest entity secured by receivables of A.I. Credit.

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The roll forward of long-term borrowings, excluding borrowings of consolidated investments, for the nine months ended September 30, 2008 was as follows:

(in millions)	Balance at December 31, 2007	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes(b)	**Balance at September 30, 2008**
AIG						
Fed Facility	$ –	$ 61,000	$ –	$ –	$ 1,960	**$ 62,960**
Notes and bonds payable	14,588	–	(2,386)	(161)	(5)	**12,036**
Junior subordinated debt	5,809	6,953	–	(539)	1	**12,224**
Junior subordinated debt attributable to equity units	–	5,880	–	–	–	**5,880**
Loans and mortgages payable	729	297	(642)	8	(16)	**376**
MIP matched notes and bonds payable	14,267	–	(200)	(12)	(184)	**13,871**
AIGFP matched notes and bonds payable	874	3,464	(135)	–	1	**4,204**
AIGFP(a)						
GIAs	19,908	4,708	(13,247)	–	2,239	**13,608**
Notes and bonds payable and hybrid financial instrument liabilities	44,155	66,874	(89,660)	–	(2,455)	**18,914**
Loans and mortgages payable	1,384	5,489	(242)	–	(4)	**6,627**
AIGLH notes and bonds payable	797	–	–	–	1	**798**
Liabilities connected to trust preferred stock	1,435	–	(19)	–	(2)	**1,414**
ILFC notes and bonds payable	25,737	9,311	(2,791)	(253)	1	**32,005**
ILFC junior subordinated debt	999	–	–	–	–	**999**
AGF notes and bonds payable	22,369	5,691	(3,730)	(198)	(34)	**24,098**
AGF junior subordinated debt	349	–	–	–	–	**349**
AIGCFG loans and mortgages payable	1,839	1,800	(1,744)	3	137	**2,035**
Other subsidiaries	775	29	(116)	4	2	**694**
Total	$ 156,014	$ 171,496	$ (114,912)	$ (1,148)	$ 1,642	**$ 213,092**

(a) In 2008, AIGFP borrowings are carried at fair value.
(b) Includes the cumulative effect of the adoption of FAS 159. Also includes commitment fee and payment in kind interest of $1.96 billion on the Fed Facility.

Maturities of long-term borrowings at September 30, 2008, excluding borrowings of consolidated investments, are as follows:

	Twelve Months Ended September 30,						
(in millions)	Total	2009	2010	2011	2012	2013	Thereafter
AIG:							
Fed Facility	$ 62,960	$ –	$ 62,960	$ –	$ –	$ –	$ –
Notes and bonds payable	12,036	639	1,850	500	503	997	7,547
Junior subordinated debt	12,224	–	–	–	–	–	12,224
Junior subordinated debt attributable to equity units	5,880	–	–	–	–	–	5,880
Loans and mortgages payable	376	36	–	–	–	292	48
MIP matched notes and bonds payable	13,871	1,207	2,217	3,069	2,024	871	4,483
AIGFP matched notes and bonds payable	4,204	252	39	12	64	6	3,831
Total AIG	111,551	2,134	67,066	3,581	2,591	2,166	34,013
AIGFP:							
GIAs	13,608	1,586	981	545	552	430	9,514
Notes and bonds payable	16,229	12,048	894	142	418	86	2,641
Loans and mortgages payable	6,627	43	506	121	1,251	2,230	2,476
Hybrid financial instrument liabilities	2,685	520	1,150	199	84	175	557
Total AIGFP	39,149	14,197	3,531	1,007	2,305	2,921	15,188
AIGLH notes and bonds payable	798	–	500	–	–	–	298
Liabilities connected to trust preferred stock	1,414	–	–	–	–	–	1,414
ILFC:							
Notes and bonds payable	21,948	3,824	4,480	4,756	3,574	2,806	2,508
Junior subordinated debt	999	–	–	–	–	–	999
Export credit facility	2,492	520	419	331	275	275	672
Bank financings	7,565	473	2,107	2,160	2,650	175	–
Total ILFC	33,004	4,817	7,006	7,247	6,499	3,256	4,179
AGF:							
Notes and bonds payable	24,098	5,831	5,777	2,517	1,809	2,398	5,766
Junior subordinated debt	349	–	–	–	–	–	349
Total AGF	24,447	5,831	5,777	2,517	1,809	2,398	6,115
AIGCFG Loans and mortgages payable	2,035	1,061	768	161	22	13	10
Other subsidiaries	694	17	2	4	4	2	665
Total	$ 213,092	$ 28,057	$ 84,650	$ 14,517	$ 13,230	$ 10,756	$ 61,882

AIG (Parent Company)

AIG has not had access to its traditional sources of long-term or short-term financing through the public debt markets. Further, in light of AIG's current common stock price, AIG does not expect to be able to issue equity securities in the public markets in the foreseeable future. AIG's affiliates, AIG Funding Inc., ILFC, Curzon Funding LLC and Nightingale Finance LLC, may issue up to approximately $6.9 billion, $5.7 billion, $7.2 billion and $1.1 billion, respectively, of commercial paper under the CPFF.

AIG traditionally issued debt securities from time to time to meet its financing needs and those of certain of its subsidiaries, as well as to opportunistically fund the MIP. The maturities of the debt securities issued by AIG to fund the MIP are generally expected to be paid using the cash flows of assets held by AIG as part of the MIP portfolio.

On August 18, 2008, AIG sold $3.25 billion principal amount of senior unsecured notes in a Rule 144A/Regulation S offering which bear interest at a per annum rate of 8.25 percent and mature in 2018. The proceeds from the sale of these notes were used by AIGFP for its general corporate purposes, and the notes are included within "AIGFP matched notes and bond payable" in the preceding tables. AIG has agreed to use commercially reasonable efforts to consummate an exchange offer for the notes pursuant to an effective registration statement within 360 days of the date on which the notes were issued.

As of September 30, 2008, approximately $7.4 billion principal amount of senior notes were outstanding under AIG's medium-term note program, of which $3.2 billion was used for AIG's general corporate purposes, $1.0 billion was used by AIGFP (included within "AIGFP matched notes bonds and payable" in the preceding tables) and $3.2 billion was used to fund the MIP. The maturity dates of these notes range from 2008 to 2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes.

AIG also maintains a Euro medium-term note program under which an aggregate nominal amount of up to $31.5 billion of senior notes may be outstanding at any one time. As of September 30, 2008, the equivalent of $12.0 billion of notes were outstanding under the program, of which $9.3 billion were used to fund the MIP and the remainder was used for AIG's general corporate purposes. The aggregate amount outstanding includes a $678 million increase resulting from

foreign exchange translation into U.S. dollars, of which $167 million relates to notes issued by AIG for general corporate purposes and $511 million relates to notes issued to fund the MIP. AIG has economically hedged the currency exposure arising from its foreign currency denominated notes.

AIG maintains a shelf registration statement in Japan, providing for the issuance of up to Japanese yen 300 billion principal amount of senior notes, of which the equivalent of $476 million was outstanding as of September 30, 2008 and was used for AIG's general corporate purposes. In October 2008, $282 million of senior notes matured and were paid.

In May 2008, AIG raised a total of approximately $20 billion through the sale of (i) 196,710,525 shares of AIG common stock in a public offering at a price per share of $38; (ii) 78.4 million Equity Units in a public offering at a price per unit of $75; and (iii) $6.9 billion in unregistered offerings of junior subordinated debentures in three series. The Equity Units and junior subordinated debentures receive hybrid equity treatment from the major rating agencies under their current policies but are recorded as long-term borrowings on the consolidated balance sheet. The Equity Units consist of an ownership interest in AIG junior subordinated debentures and a stock purchase contract obligating the holder of an equity unit to purchase, and obligating AIG to sell, a variable number of shares of AIG common stock on three dates in 2011 (a minimum of 128,944,480 shares and a maximum of 154,738,080 shares, subject to anti-dilution adjustments).

In October 2007, AIG borrowed a total of $500 million on an unsecured basis pursuant to a loan agreement with a third-party bank. The entire amount of the loan was repaid on September 30, 2008.

AIGFP

AIGFP used the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The borrowings may also be temporarily invested in securities purchased under agreements to resell. AIGFP's notes and bonds include structured debt instruments whose payment terms are linked to one or more financial or other indices (such as an equity index or commodity index or another measure that is not considered to be clearly and closely related to the debt instrument). These notes contain embedded derivatives that otherwise would be required to be accounted for separately under FAS 133. Upon AIG's adoption of FAS 155 in 2006, AIGFP elected the fair value option for these notes. The notes that are accounted for using the fair value option are reported separately under hybrid financial instrument liabilities. AIG guarantees the obligations of AIGFP under AIGFP's notes and bonds and GIA borrowings.

Approximately $8.7 billion of AIGFP's debt maturities through September 30, 2009 are fully collateralized with assets backing the corresponding liabilities.

ILFC

ILFC has not had access to its traditional sources of long-term or short-term financing through the public debt markets. ILFC can currently issue up to $5.7 billion in commercial paper under the CPFF and has the capacity under its present facilities and indentures to enter into secured financings in excess of $4.0 billion.

As a well-known seasoned issuer, ILFC has an automatic shelf registration statement with the SEC allowing ILFC immediate access to the U.S. public debt markets. At September 30, 2008, $6.9 billion of debt securities had been issued under this registration statement and $6.1 billion had been issued under a prior registration statement. In addition, ILFC has a Euro medium-term note program for $7.0 billion, under which $3.8 billion in notes were outstanding at September 30, 2008. Notes issued under the Euro medium-term note program are included in ILFC notes and bonds payable in the preceding table of borrowings. The cumulative foreign exchange adjustment loss for the foreign currency denominated debt was $715 million at September 30, 2008 and $969 million at December 31, 2007. ILFC has substantially eliminated the currency exposure arising from foreign currency denominated notes by economically hedging the note exposure.

ILFC had a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At September 30, 2008, ILFC had $445 million outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility.

In May 2004, ILFC entered into a similarly structured Export Credit Facility for up to a maximum of $2.6 billion for Airbus aircraft to be delivered through May 31, 2005. The facility was subsequently increased to $3.6 billion and extended to include aircraft to be delivered through May 31, 2009. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a forward-looking calendar, and the interest rate is determined through a bid process. The interest rates are either LIBOR based with spreads ranging from (0.04) percent to 0.02 percent or at fixed rates ranging from 4.2 percent to 4.7 percent. At September 30, 2008, ILFC had $2.0 billion outstanding under this facility. At September 30, 2008, the interest rate of the loans outstanding ranged from 2.83 percent to 4.71 percent. The debt is collateralized by a pledge of shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. Borrowings with respect to these facilities are included in ILFC's notes and bonds payable in the preceding table of borrowings.

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Under these Export Credit Facilities, ILFC may be required to segregate deposits and maintenance reserves for particular aircraft into separate accounts in connection with certain credit rating downgrades. As a result of Moody's October 3, 2008 downgrade of ILFC's long-term debt rating to Baa1, ILFC has received notice from the security trustee of the 2004 facility to segregate into separate accounts security deposits and maintenance reserves aggregating $148.8 million related to aircraft funded under the facility. ILFC has 90 days from the notice to comply. Further credit rating declines could impose additional restrictions under the Export Credit Facilities and make it more difficult for ILFC to borrow under the 2004 facility.

From time to time, ILFC enters into funded financing agreements. As of September 30, 2008, ILFC had a total of $1.1 billion outstanding, which has varying maturities through February 2012. The interest rates are LIBOR-based, with spreads ranging from 0.33 percent to 1.625 percent. At September 30, 2008, the interest rates ranged from 3.113 percent to 5.375 percent. AIG does not guarantee any of the debt obligations of ILFC.

AGF

In the current environment, AGF has not had access to its traditional sources of long-term or short-term financing through the public debt markets.

As of September 30, 2008, notes and bonds aggregating $24.1 billion were outstanding with maturity dates ranging from 2008 to 2031 at interest rates ranging from 1.46 percent to 9 percent. To the extent considered appropriate, AGF has entered into swap transactions to manage its effective borrowing rates with respect to these notes and bonds. AIG does not guarantee any of the debt obligations of AGF.

Revolving Credit Facilities

AIG, ILFC and AGF have maintained committed, unsecured revolving credit facilities listed on the following table to support their respective commercial paper programs and for general corporate purposes. Some of the facilities, as noted below, contain a "term-out option" allowing for the conversion by the borrower of any outstanding loans at expiration into one-year term loans.

As previously discussed under Item 1A. Risk Factors — New Credit Facility, both ILFC and AGF have drawn the full amount available under their revolving credit facilities. AIG's syndicated facilities contain a covenant requiring AIG to maintain total shareholders' equity (calculated on a consolidated basis consistent with GAAP) of at least $50 billion at all times. If AIG fails to maintain this level of total shareholders' equity at any time, it will lose access to those facilities.

As of September 30, 2008 (in millions)

Facility	Size	Borrower(s)	Available Amount	Expiration	One-Year Term-Out Option
AIG:					
364-Day Syndicated Facility	$ 2,125	AIG/AIG Funding[(a)]	$ 2,125	July 2009	Yes
5-Year Syndicated Facility	1,625	AIG/AIG Funding[(a)]	1,625	July 2011	No
364-Day Bilateral Facility [(b)]	3,200	AIG/AIG Funding[(a)]	70	December 2008	Yes
Total AIG	$ 6,950		$ 3,820		
ILFC:					
5-Year Syndicated Facility	$ 2,500	ILFC	$ –	October 2011	No
5-Year Syndicated Facility	2,000	ILFC	–	October 2010	No
5-Year Syndicated Facility	2,000	ILFC	–	October 2009	No
Total ILFC	$ 6,500		$ –		
AGF:					
364-Day Syndicated Facility	$ 2,450	American General Finance Corporation	$ –	July 2009	Yes
		American General Finance, Inc.[(c)]			
5-Year Syndicated Facility	2,125	American General Finance Corporation	–	July 2010	No
Total AGF	$ 4,575		$ –		

(a) Guaranteed by AIG. In September 2008, AIG Capital Corporation was removed as a borrower on the syndicated facilities.
(b) This facility can be drawn in the form of loans or letters of credit. All drawn amounts shown above are in the form of letters of credit.
(c) American General Finance, Inc. was an eligible borrower for up to $400 million only.

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Credit Ratings

The cost and availability of unsecured financing for AIG and its subsidiaries are generally dependent on their short-and long-term debt ratings. The following table presents the credit ratings of AIG and certain of its subsidiaries as of October 27, 2008. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category.

	Short-term Debt			Senior Long-term Debt		
	Moody's	S&P	Fitch(j)	Moody's(a)	S&P(b)	Fitch(c)(j)
AIG	P-1 (1st of 3)(g)	A-1 (1st of 6)(e)	F1 (1st of 5)	A3 (3rd of 9)(g)	A- (3rd of 8)(e)	A (3rd of 9)
AIG Financial Products Corp.(d)	P-1(g)	A-1(e)	–	A3(g)	A-(e)	–
AIG Funding, Inc.(d)	P-1(g)	A-1(e)	F1	–	–	–
ILFC	P-2 (2nd of 3)(h)	A-1(f)	F1	Baa1 (4th of 9)(h)	A-(f)	A
American General Finance Corporation	P-2(i)	A-3 (3rd of 6)	F1	Baa1(g)	BBB(4th of 8)(e)	A
American General Finance, Inc.	P-2(g)	A-3	F1	–	–	A

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within rating categories.
(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.
(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.
(d) AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.
(e) Credit Watch Negative.
(f) Credit Watch Developing.
(g) Under Review for Possible Downgrade.
(h) Under Review with Direction Uncertain.
(i) Negative Outlook.
(j) Rating Watch Evolving.

These credit ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at AIG management's request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries.

"Ratings triggers" have been defined by one independent rating agency to include clauses or agreements the outcome of which depends upon the level of ratings maintained by one or more rating agencies. "Ratings triggers" generally relate to events that (i) could result in the termination or limitation of credit availability, or require accelerated repayment, (ii) could result in the termination of business contracts or (iii) could require a company to post collateral for the benefit of counterparties.

A significant portion of AIGFP's GIAs and financial derivative transactions include provisions that require AIGFP, upon a downgrade of AIG's long-term debt ratings, to post collateral or, with the consent of the counterparties, assign or repay its positions or arrange a substitute guarantee of its obligations by an obligor with higher debt ratings.

Furthermore, certain downgrades of AIG's long-term senior debt ratings would permit either AIG or the counterparties to elect early termination of contracts.

The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. AIG's credit ratings and the potential effect of downgrades, see Item 1A. Risk Factors — Credit Ratings.

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Contractual Obligations

Contractual obligations in total, and by remaining maturity at September 30, 2008 were as follows:

		Payments due by Period			
(in millions)	Total Payments	Less Than One Year	1-3 Years	3+-5 Years	More Than Five Years
Borrowings*(a)*	$ 150,132	$ 28,057	$ 36,207	$ 23,986	$ 61,882
Fed Facility	62,960	–	62,960	–	–
Interest payments on borrowings	76,692	5,556	11,535	9,131	50,470
Loss reserves*(b)*	90,877	24,991	27,717	13,178	24,991
Insurance and investment contract liabilities*(c)*	698,107	31,815	47,027	44,436	574,829
GIC liabilities*(d)*	23,998	10,432	3,951	3,467	6,148
Aircraft purchase commitments	16,902	735	3,155	3,180	9,832
Other long-term obligations	683	248	393	28	14
Total*(e)(f)*	$ 1,120,351	$ 101,834	$ 192,945	$ 97,406	$ 728,166

(a) Excludes commercial paper and borrowings incurred by consolidated investments and includes hybrid financial instrument liabilities recorded at fair value.
(b) Represents future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments.
(c) Insurance and investment contract liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. Insurance and investment contract liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) AIG is currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship, or (iii) payment may occur due to a surrender or other non-scheduled event out of AIG's control. AIG has made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits, which assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in force policies. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and therefore exceed the future policy benefits and policyholders' contract deposits included in the balance sheet.
(d) Represents guaranteed maturities under GICs.
(e) Does not reflect unrecognized tax benefits of $2.5 billion, the timing of which is uncertain.
(f) The majority of AIGFP's credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At September 30, 2008, the fair value derivative liability was $30.2 billion relating to AIGFP's super senior multi-sector CDO credit default swap portfolio, net of amounts realized in extinguishing derivative obligations. However, AIG's credit-based stress testing scenarios illustrate potential pre-tax realized credit losses from these contracts at approximately $7.8 billion and approximately $12.0 billion at that date. Due to the long-term maturities of these credit default swaps, AIG is unable to make reasonable estimates of the periods during which any payments would be made.

Off Balance Sheet Arrangements and Commercial Commitments

Off balance sheet arrangements and commercial commitments in total, and by remaining maturity at September 30, 2008 were as follows:

		Amount of Commitment Expiration			
(in millions)	Total Amounts Committed	Less Than One Year	1-3 Years	3+-5 Years	More Than Five Years
Guarantees:					
Liquidity facilities*(a)*	$ 1,942	$ 8	$ 883	$ 813	$ 238
Standby letters of credit	1,698	1,483	45	28	142
Construction guarantees*(b)*	162	–	–	–	162
Guarantees of indebtedness	1,206	2	214	500	490
All other guarantees	617	52	54	13	498
Commitments:					
Investment commitments*(c)*	8,444	2,890	3,551	1,847	156
Commitments to extend credit	1,760	1,315	348	94	3
Letters of credit	1,229	959	120	–	150
Maturity shortening puts*(d)*	1,000	136	864	–	–
Other commercial commitments*(e)*	1,034	10	–	79	945
Total	$ 19,092	$ 6,855	$ 6,079	$ 3,374	$ 2,784

(a) Primarily liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.
(b) Primarily AIG SunAmerica construction guarantees connected to affordable housing investments.
(c) Includes commitments to invest in limited partnerships, private equity, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad.
(d) Represents obligations under 2a-7 Puts to purchase certain multi-sector CDOs at pre-determined contractual prices.
(e) Includes options to acquire aircraft. Excludes commitments with respect to pension plans. The annual pension contribution for 2008 is expected to be approximately $654 million for U.S. and non-U.S. plans.

Arrangements with Variable Interest Entities and Structured Investment Vehicles

AIG enters into various off-balance-sheet (unconsolidated) arrangements with variable interest entities (VIEs) in the normal course of business. AIG's involvement with VIEs ranges from being a passive investor to designing and structuring, warehousing and managing the collateral of VIEs. AIG engages in transactions with VIEs as part of its investment activities to obtain funding and to facilitate client needs. AIG purchases debt securities (rated and unrated) and equity interests issued by VIEs, makes loans and provides other credit support to VIEs, enters into insurance, reinsurance and derivative transactions and leasing arrangements with VIEs, and acts as the warehouse agent and collateral manager for VIEs. Interest holders in the VIEs generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except when AIG has provided a guarantee to the VIEs' interest holders. AIGFP has written regulatory relief super senior credit default swaps on VIE's used by lenders to fund their corporate loan and residential mortgage loan portfolios.

Under FIN 46(R), AIG consolidates a VIE when it is the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIE's expected losses; (ii) receives a majority of the VIEs' expected residual returns; or (iii) both. For a further discussion of AIG's involvement with VIEs, see Note 7 of Notes to Consolidated Financial Statements in the 2007 Annual Report on Form 10-K.

A significant portion of AIG's overall exposure to VIEs results from AIG Investment's real estate and investment funds.

In certain instances, AIG Investments acts as the collateral manager or general partner of an investment fund, private equity fund or hedge fund. Such entities are typically registered investment companies or qualify for the specialized investment company accounting in accordance with the AICPA Investment Company Audit and Accounting Guide. For investment partnerships, hedge funds and private equity funds, AIG acts as the general partner or manager of the fund and is responsible for carrying out the investment mandate of the VIE. Often, AIG's insurance operations participate in these AIG managed structures as a passive investor in the debt or equity issued by the VIE. Typically, AIG does not provide any guarantees to the investors in the VIE.

AIG's primary exposure to unconsolidated VIEs at September 30, 2008 consists of debt and equity investments of approximately $17 billion which are included in AIG's Total Investments and Financial Services assets on the consolidated balance sheet. AIG's total maximum exposure to loss on unconsolidated VIEs continued to decline as a result of the termination of certain of AIGFP's transactions and the effects of overall market deterioration. In addition, AIG has certain regulatory capital relief CDSs written by AIGFP with VIEs, including CDSs with VIEs where AIG also has a debt or equity interest. These regulatory capital relief CDSs continue to have a zero fair value and AIGFP's exposure is included in the total net notional amount of AIGFP's regulatory capital CDS portfolio of $250 billion. See Critical Accounting Estimates — AIGFP's Super Senior Credit Default Swap Portfolio — Regulatory Capital Portfolio.

Potential Amendment to FIN 46(R)

In September 2008, the FASB issued an exposure draft of an FAS that would amend FIN 46(R) to change the criteria for determining the primary beneficiary of a VIE. The primary beneficiary is the party that consolidates the VIE. The amendment would identify the party that has the ability to direct matters that most significantly affect the activities of the VIE as the primary beneficiary. The majority of AIG's involvement with VIE's results from being a passive investor. AIG is currently assessing the effect that adopting this potential amendment would have on its consolidated financial statements.

Shareholders' Equity

The changes in AIG's consolidated shareholders' equity were as follows:

(in millions)	Nine Months Ended September 30, 2008
Beginning of year	**$ 95,801**
Net income (loss)	**(37,630)**
Unrealized depreciation of investments, net of tax	**(13,383)**
Cumulative translation adjustment, net of tax	**(579)**
Dividends to shareholders	**(1,105)**
Payments advanced to purchase shares, net	**912**
Common share issuance	**7,343**
Consideration received for preferred stock not yet issued	**23,000**
Share purchases	**(1,912)**
Cumulative effect of accounting changes, net of tax	**(1,108)**
Other*	**(157)**
End of period	**$ 71,182**

* *Reflects the effects of employee stock transactions and the present value of future contract adjustment payments related to the issuance of Equity Units.*

New Share Issuance

In May 2008, AIG sold in a public offering 196,710,525 shares of its common stock at a price per share of $38. Concurrent with the common stock offering, AIG sold 78.4 million Equity Units at a price per unit of $75. The Equity Units consist of an ownership interest in AIG junior subordinated debentures and a stock purchase contract obligating the holder of an equity unit to purchase, and obligating AIG to sell, on each of February 15, 2011, May 1, 2011 and August 1, 2011, for a price of $25, a variable number of shares of AIG common stock, that is not less than 0.54823 shares and not more than 0.6579 shares, subject to anti-dilution adjustments. Accordingly, a maximum number of 154,738,080 shares and a

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minimum number of 128,944,480 shares of AIG common stock will be issued in the year 2011 under the stock purchase contracts, subject to anti-dilution adjustments.

On May 7, 2008, AIG's Board of Directors declared a quarterly cash dividend on the common stock of $0.22 per share, that was paid on September 19, 2008 to shareholders of record on September 5, 2008. Effective September 23, 2008, AIG's Board of Directors suspended the declaration of dividends on AIG's common stock. Pursuant to the Fed Credit Agreement, AIG is restricted from paying dividends on its common stock.

See Note 5 to the Consolidated Financial Statements.

Share Repurchases

In February 2007, AIG's Board of Directors increased AIG's share repurchase program by authorizing the purchase of shares with an aggregate purchase price of $8 billion. In November 2007, AIG's Board of Directors authorized the purchase of an additional $8 billion in common stock. In 2007, AIG entered into structured share repurchase arrangements providing for the purchase of shares over time with an aggregate purchase price of $7 billion.

A total of 37,926,059 shares were purchased during the nine-month period ended September 30, 2008 to meet commitments that existed at December 31, 2007. All shares purchased are recorded as treasury stock at cost.

At October 27, 2008, $9 billion was available for purchases under the aggregate authorization. Pursuant to the Fed Credit Agreement, AIG is restricted from repurchasing shares of its common stock.

Invested Assets

The following tables summarize the composition of AIG's invested assets by segment:

(in millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
September 30, 2008						
Fixed maturity securities:						
Bonds available for sale, at fair value	$ 89,555	$ 284,886	$ 1,199	$ 18,854	$ —	$ 394,494
Bond trading securities, at fair value	—	7,545	—	7	—	7,552
Equity securities:						
Common stocks available for sale, at fair value	3,028	7,793	2	654	(18)	11,459
Common and preferred stocks trading, at fair value	228	20,421	—	25	—	20,674
Preferred stocks available for sale, at fair value	1,111	348	5	—	—	1,464
Mortgage and other loans receivable, net of allowance	16	25,937	621	7,114	36	33,724
Financial Services assets:						
Flight equipment primarily under operating leases, net of accumulated depreciation	—	—	43,561	—	—	43,561
Securities available for sale, at fair value	—	—	2,326	—	—	2,326
Trading securities, at fair value	—	—	36,136	—	—	36,136
Spot commodities, at fair value	—	—	34	—	—	34
Unrealized gain on swaps, options and forward transactions, at fair value	—	—	11,663	—	(1,629)	10,034
Trade receivables	—	—	4,617	—	—	4,617
Securities purchased under agreements to resell, at fair value	—	—	12,100	—	—	12,100
Finance receivables, net of allowance	—	5	32,585	—	—	32,590
Securities lending invested collateral, at fair value	2,910	35,176	—	3,425	—	41,511
Other invested assets	12,341	19,670	2,756	16,042	7,914	58,723
Short-term investments	9,687	27,119	8,846	5,595	1,237	52,484
Total Investments and Financial Services assets as shown on the balance sheet	118,876	428,900	156,451	51,716	7,540	763,483
Cash	1,743	5,324	9,795	545	1,163	18,570
Investment income due and accrued	1,376	5,322	29	282	(1)	7,008
Real estate, net of accumulated depreciation	306	926	34	87	225	1,578
Total invested assets*	$ 122,301	$ 440,472	$ 166,309	$ 52,630	$ 8,927	$ 790,639

* *At September 30, 2008, approximately 62 percent and 38 percent of invested assets were held in domestic and foreign investments, respectively.*

(in millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
December 31, 2007						
Fixed maturity securities:						
Bonds available for sale, at fair value	$ 74,057	$294,162	$ 1,400	$27,753	$ —	$397,372
Bonds held to maturity, at amortized cost	21,355	1	—	225	—	21,581
Bond trading securities, at fair value	—	9,948	—	34	—	9,982
Equity securities:						
Common stocks available for sale, at fair value	5,599	11,616	—	609	76	17,900
Common and preferred stocks trading, at fair value	321	21,026	—	29	—	21,376
Preferred stocks available for sale, at fair value	1,885	477	8	—	—	2,370
Mortgage and other loans receivable, net of allowance	13	24,851	1,365	7,442	56	33,727
Financial Services assets:						
Flight equipment primarily under operating leases, net of accumulated depreciation	—	—	41,984	—	—	41,984
Securities available for sale, at fair value	—	—	40,305	—	—	40,305
Trading securities, at fair value	—	—	4,197	—	—	4,197
Spot commodities	—	—	238	—	—	238
Unrealized gain on swaps, options and forward transactions, at fair value	—	—	13,010	—	(692)	12,318
Trade receivables	—	—	672	—	—	672
Securities purchased under agreements to resell, at contract value	—	—	20,950	—	—	20,950
Finance receivables, net of allowance	—	5	31,229	—	—	31,234
Securities lending invested collateral, at fair value	5,031	57,471	148	13,012	—	75,662
Other invested assets	11,895	19,015	3,663	17,261	6,989	58,823
Short-term investments	7,356	25,236	12,249	4,919	1,591	51,351
Total Investments and Financial Services assets as shown on the balance sheet	127,512	463,808	171,418	71,284	8,020	842,042
Cash	497	1,000	389	269	129	2,284
Investment income due and accrued	1,431	4,728	29	401	(2)	6,587
Real estate, net of accumulated depreciation	349	976	17	89	231	1,662
Total invested assets*	$129,789	$470,512	$171,853	$72,043	$8,378	$852,575

* *At December 31, 2007, approximately 65 percent and 35 percent of invested assets were held in domestic and foreign investments, respectively.*

Investment Strategy

AIG's investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the business model for each of the businesses: General Insurance, Life Insurance, Retirement Services and Asset Management's Spread-Based Investment business. The primary objectives are liquidity, preservation of capital, growth of surplus and generation of investment income to support the insurance products. Difficult market conditions in recent quarters have significantly hindered AIG's ability to achieve these objectives, and these challenges are expected to persist for the foreseeable future.

At the local operating unit level, investment strategies are based on considerations that include the local market, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities. In the case of Life Insurance & Retirement Services companies, as well as in the GIC and MIP portfolios of the Asset Management segment, the fundamental investment strategy is, as nearly as is practicable, to match the duration characteristics of the liabilities with comparable duration assets. Fixed maturity securities held by the insurance companies included in the AIG Property Casualty Group historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In light of AIG's net operating position, AIG changed its intent to hold to maturity certain tax-exempt municipal securities held by its insurance subsidiaries. Fixed maturity securities held by Foreign General Insurance companies consist primarily of intermediate duration high grade securities.

The market price of fixed maturity securities reflects numerous components, including interest rate environment, credit spread, embedded optionality (such as call features), liquidity, structural complexity, foreign exchange risk, and

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other credit and non-credit factors. However, in most circumstances, pricing is most sensitive to interest rates, such that the market price declines as interest rates rise, and increases as interest rates fall. This effect is more pronounced for longer duration securities.

AIG marks to market the vast majority of the invested assets held by its insurance companies pursuant to FAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and related accounting pronouncements. However, with limited exceptions (primarily with respect to separate account products consolidated on AIG's balance sheet pursuant to SOP 03-01), AIG does not mark to market its insurance liabilities for changes in interest rates, even though rising interest rates have the effect of reducing the fair value of such liabilities, and falling interest rates have the opposite effect. This results in the recording of changes in unrealized gains (losses) on securities in Accumulated other comprehensive income resulting from changes in interest rates without any correlative, inverse changes in gains (losses) on AIG's liabilities. Because AIG's asset duration in certain low-yield currencies, particularly Japan and Taiwan, is shorter than its liability duration, AIG views increasing interest rates in these countries as economically advantageous, notwithstanding the effect that higher rates have on the market value of its fixed maturity portfolio.

The majority of AIG's non-floating rate fixed maturity portfolio is held to support intermediate and long duration liabilities. Assuming no other changes in factors affecting the valuation of fixed maturity securities, each 10 basis point (1/10 of 1 percent) increase in interest rates results in a decline of approximately $2.2 billion in the pre-tax fair value of the fixed maturity portfolio. In most jurisdictions in which AIG operates, including the United States, such interest rate related changes in portfolio value are ignored for purposes of measuring regulatory capital adequacy.

The amortized cost or cost and fair value of AIG's available for sale and held to maturity securities were as follows:

(in millions)	**September 30, 2008** Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2007 Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds — available for sale:(a)								
U.S. government and government sponsored entities	**$ 4,689**	**$ 162**	**$ (63)**	**$ 4,788**	$ 7,956	$ 333	$ (37)	$ 8,252
Obligations of states, municipalities and political subdivisions	**66,491**	**506**	**(3,278)**	**63,719**	46,087	927	(160)	46,854
Non-U.S. governments	**70,554**	**4,140**	**(1,610)**	**73,084**	67,023	3,920	(743)	70,200
Corporate debt	**213,588**	**3,020**	**(14,421)(b)**	**202,187**	239,822	6,216	(4,518)	241,520
Mortgage-backed, asset-backed and collateralized	**95,712**	**916**	**(7,823)**	**88,805**	140,982	1,221	(7,703)	134,500
Total bonds	**$ 451,034**	**$ 8,744**	**$ (27,195)**	**$ 432,583**	$ 501,870	$ 12,617	$ (13,161)	$ 501,326
Equity securities	**12,945**	**1,526**	**(1,548)**	**12,923**	15,188	5,545	(463)	20,270
Total	**$ 463,979**	**$ 10,270**	**$ (28,743)**	**$ 445,506**	$ 517,058	$ 18,162	$ (13,624)	$ 521,596
Held to maturity:(c)	**$ –**	**$ –**	**$ –**	**$ –**	$ 21,581	$ 609	$ (33)	$ 22,157

(a) At December 31, 2007, included AIGFP available for sale securities with a fair value of $39.3 billion, for which AIGFP elected the fair value option effective January 1, 2008, consisting primarily of corporate debt, mortgage-backed, asset-backed and collateralized securities. At September 30, 2008, the fair value of these securities were $33.6 billion. At September 30, 2008 and December 31, 2007, fixed maturities held by AIG that were below investment grade or not rated totaled $20.5 billion and $27.0 billion, respectively. During the third quarter of 2008, AIG changed its intent to hold until maturity certain tax-exempt municipal securities held by its insurance subsidiaries. As a result, all securities previously classified as held to maturity are now classified in the available for sale category. See Note 1 to the Consolidated Financial Statements for additional information.

(b) Financial institutions represent approximately 54 percent of the total gross unrealized losses at September 30, 2008.

(c) Represents obligations of states, municipalities and political subdivisions.

At September 30, 2008, approximately 54 percent of the fixed maturity securities were held by domestic entities. Approximately 38 percent of such domestic securities were rated AAA by one or more of the principal rating agencies. Approximately five percent were below investment grade or not rated. AIG's investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspectives for consideration in the internal analysis. A significant portion of the foreign fixed maturity portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available in all overseas locations. AIG's Credit Risk Committee closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At September 30, 2008, approximately 18 percent of the foreign fixed maturity securities were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately three percent were below investment grade or not rated at that date. Approximately one third of the foreign

fixed maturity portfolio is sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

The credit ratings of AIG's fixed maturity securities, other than those of AIGFP, were as follows:

	September 30, 2008	December 31, 2007
Rating		
AAA	**29%**	38%
AA	**29**	28
A	**23**	18
BBB	**14**	11
Below investment grade	**4**	4
Non-rated	**1**	1
Total	**100%**	100%

The industry categories of AIG's available for sale corporate debt securities, other than those of AIGFP, were as follows:

Industry Category	September 30, 2008	December 31, 2007
Financial institutions:		
Money Center / Global Bank Groups	**17%**	16%
Regional banks — other	**6**	6
Life insurance	**5**	5
Securities firms and other finance companies	**4**	6
Insurance non-life	**3**	2
Regional banks — North America	**3**	4
Other financial institutions	**3**	3
Utilities	**12**	11
Communications	**8**	8
Consumer noncyclical	**7**	7
Capital goods	**6**	6
Consumer cyclical	**5**	5
Energy	**5**	4
Other	**16**	17
Total*	**100%**	100%

* *At both September 30, 2008 and December 31, 2007, approximately 95 percent of these investments were rated investment grade.*

Investments in RMBS, CMBS, CDOs and ABS

The amortized cost, gross unrealized gains (losses) and fair value of AIG's investments in RMBS, CMBS, CDOs and ABS were as follows:

	September 30, 2008				December 31, 2007			
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds — available for sale:								
AIG, excluding AIGFP:								
RMBS	**$ 64,733**	**$ 620**	**$ (3,745)**	**$ 61,608**	$ 89,851	$ 433	$ (5,504)	$ 84,780
CMBS	**20,021**	**187**	**(2,657)**	**17,551**	23,918	237	(1,156)	22,999
CDO/ABS	**9,609**	**96**	**(1,230)**	**8,475**	10,844	196	(593)	10,447
Subtotal, excluding AIGFP	**94,363**	**903**	**(7,632)**	**87,634**	124,613	866	(7,253)	118,226
AIGFP*	**1,349**	**13**	**(191)**	**1,171**	16,369	355	(450)	16,274
Total	**$ 95,712**	**$ 916**	**$ (7,823)**	**$ 88,805**	$ 140,982	$ 1,221	$ (7,703)	$ 134,500

* *The December 31, 2007 amounts represent total AIGFP investments in mortgage-backed, asset-backed and collateralized securities for which AIGFP has elected the fair value option effective January 1, 2008. At September 30, 2008, the fair value of these securities were $20.2 billion. The September 30, 2008 amounts represent securities for which AIGFP has not elected the fair value option. An additional $1.6 billion related to insurance company investments is included in Bonds — trading.*

Investments in RMBS

The amortized cost, gross unrealized gains (losses) and fair value of AIG's investments in RMBS securities, other than those of AIGFP, were as follows:

	September 30, 2008					December 31, 2007				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
RMBS:										
U.S. agencies	**$17,419**	**$ 255**	**$ (170)**	**$17,504**	**28%**	$14,575	$ 320	$ (70)	$14,825	17%
Prime non-agency(a)	**15,698**	**41**	**(2,019)**	**13,720**	**22**	21,552	72	(550)	21,074	25
Alt-A	**14,984**	**177**	**(1,197)**	**13,964**	**23**	25,349	17	(1,620)	23,746	28
Other housing- related(b)	**2,111**	**37**	**(93)**	**2,055**	**3**	4,301	2	(357)	3,946	5
Subprime	**14,521**	**110**	**(266)**	**14,365**	**24**	24,074	22	(2,907)	21,189	25
Total	**$64,733**	**$ 620**	**$(3,745)**	**$61,608**	**100%**	$89,851	$ 433	$(5,504)	$84,780	100%

(a) Includes foreign and jumbo RMBS-related securities.
(b) Primarily wrapped second-lien.

AIG's operations, other than AIGFP, held investments in RMBS with an estimated fair value of $61.6 billion at September 30, 2008, or approximately 8 percent of AIG's total invested assets. In addition, AIG's insurance operations held investments with a fair value totaling $8.5 billion in CDOs/ABS, of which $27 million included some level of subprime exposure. AIG's RMBS investments are predominantly in highly-rated tranches that contain substantial protection features through collateral subordination. At September 30, 2008, approximately 82 percent of these investments were rated AAA, and approximately 9 percent were rated AA by one or more of the principal rating agencies. AIG's investments rated BBB or below totaled $3.3 billion, or less than 0.5 percent of AIG's total invested assets at September 30, 2008. As of October 27, 2008, $14.8 billion of AIG's RMBS backed primarily by subprime collateral had been downgraded as a result of rating agency actions since January 1, 2008, and $184 million of such investments had been upgraded. Of the downgrades, $13.9 billion were AAA rated securities. In addition to the downgrades, as of October 27, 2008, the rating agencies had $5.7 billion of RMBS on watch for downgrade.

The amortized cost of AIG's RMBS investments, other than those of AIGFP, at September 30, 2008 by year of vintage and credit rating were as follows:

	Year of Vintage						
(in billions)	Prior	2004	2005	2006	2007	**2008**	Total
Rating:							
Total RMBS							
AAA	$ 8,479	$ 5,528	$ 10,471	$ 13,591	$ 11,460	**$ 3,785**	$ 53,314
AA	975	555	1,066	2,380	1,135	**–**	6,111
A	215	230	304	1,037	185	**69**	2,040
BBB and below	98	218	301	1,450	1,178	**23**	3,268
Total RMBS	$ 9,767	$ 6,531	$ 12,142	$ 18,458	$ 13,958	**$ 3,877**	$ 64,733
Alt-A RMBS							
AAA	$ 736	$ 763	$ 2,929	$ 4,150	$ 3,646	**$ –**	$ 12,224
AA	242	106	221	628	311	**–**	1,508
A	25	33	99	506	18	**–**	681
BBB and below	10	22	50	363	126	**–**	571
Total Alt-A	$ 1,013	$ 924	$ 3,299	$ 5,647	$ 4,101	**$ –**	$ 14,984
Subprime RMBS							
AAA	$ 381	$ 336	$ 3,261	$ 4,307	$ 2,217	**$ –**	$ 10,502
AA	122	96	289	1,152	235	**–**	1,894
A	72	50	51	425	117	**–**	715
BBB and below	2	67	63	722	556	**–**	1,410
Total Subprime	$ 577	$ 549	$ 3,664	$ 6,606	$ 3,125	**$ –**	$ 14,521

AIG's underwriting practices for investing in RMBS, other ABS and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction. AIG's strategy is typically to invest in securities rated AA or better and create diversification across multiple underlying asset classes.

Investments in CMBS

The amortized cost of AIG's CMBS investments, other than those of AIGFP, at September 30, 2008 was as follows:

(in millions)	Amortized Cost	Percent of Total
CMBS (traditional)	$18,263	91%
ReRemic/CRE CDO	1,164	6
Agency	202	1
Other	392	2
Total	$20,021	100%

The percentage of AIG's CMBS investments, other than those of AIGFP, at September 30, 2008 by credit rating was as follows:

	Percentage
Rating:	
AAA	79%
AA	12
A	7
BBB and below	2
Total	100%

The percentage of AIG's CMBS investments, other than those of AIGFP, by year of vintage at September 30, 2008 was as follows:

	Percentage
Year:	
2008	1%
2007	24
2006	14
2005	19
2004	17
2003 and prior	25
Total	100%

The percentage of AIG's CMBS investments, other than those of AIGFP, by geographic region at September 30, 2008 was as follows:

	Percentage
Geographic region:	
New York	17%
California	13
Texas	7
Florida	6
Virginia	3
Illinois	3
New Jersey	3
Pennsylvania	3
Maryland	3
Georgia	2
All Other	40
Total	100%

At September 30, 2008, AIG held $20 billion in cost basis of CMBS. Approximately 79 percent of such holdings were rated AAA, approximately 19 percent were rated AA or A, and approximately 2 percent were rated BBB or below at September 30, 2008.

There have been disruptions in the commercial mortgage markets in general, and the CMBS market in particular, with credit default swaps indices and quoted prices of securities at levels consistent with a severe correction in lease rates, occupancy and fair value of properties. In addition, spreads in the primary mortgage market have widened significantly.

Pricing of CMBS has been adversely affected by market perceptions that underlying mortgage defaults will increase. As a result, AIG recognized $474 million of other-than-temporary impairment charges in the three-month period ended September 30, 2008 on CMBS valued at a severe discount to cost, despite the absence of any deterioration in performance of the underlying credits, because AIG concluded that it could not reasonably assert that the impairment period was temporary. At this time, AIG anticipates substantial recovery of principal and interest on the securities to which such other-than-temporary impairment charges were recorded. In addition, AIG recognized $485 million in other-than-temporary impairment charges due to the change in intent to hold these CMBS until they recover in value.

Investments in CDOs

The amortized cost of AIG's CDO investments, other than those of AIGFP, by collateral type at September 30, 2008 was as follows:

(in millions)	Amortized Cost	Percent of Total
Collateral Type:		
Bank loans (CLO)	$2,111	58%
Synthetic investment grade	878	24
Other	633	17
Subprime ABS	34	1
Total	$3,656	100%

Amortized cost of the AIG's CDO investments, other than those of AIGFP, by credit rating at September 30, 2008 was as follows:

(in millions)	Amortized Cost	Percent of Total
Rating:		
AAA	$ 748	20%
AA	613	17
A	1,926	53
BBB	285	8
Below investment grade and equity	84	2
Total	$3,656	100%

Commercial Mortgage Loan Exposure

At September 30, 2008, AIG had direct commercial mortgage loan exposure of $17.2 billion, with $15.8 billion representing

U.S. loan exposure. At that date, substantially all of the U.S. loans were current. Foreign commercial mortgage loans are secured predominantly by properties in Japan. In addition, at September 30, 2008, AIG had $2.3 billion in residential mortgage loans in jurisdictions outside the United States, primarily backed by properties in Taiwan and Thailand.

AIGFP Trading Investments

The fair value of AIGFP's trading investments at September 30, 2008 was as follows:

(In millions)	Fair Value	Percent of Total
U.S. government and government sponsored entities	$ 8,000	24%
Non-U.S. governments	472	1
Corporate debt	4,993	15
Mortgage-backed, asset- backed and collateralized	20,175	60
Total	$33,640	100%

The credit ratings of AIGFP's trading investments at September 30, 2008 were as follows:

Rating	Percentage
AAA	70%
AA	10
A	18
BBB	2
Total	100%

The fair value of AIGFP's trading investments in RMBS, CDO, ABS and other collateralized securities at September 30, 2008 was as follows:

(In millions)	Fair Value	Percent of Total
RMBS	$ 4,272	21%
CMBS	4,703	23
CDO/ABS and collateralized	11,200	56
Total	$20,175	100%

Securities Lending Activities

AIG's securities lending program historically operated as centrally managed by AIG Investments for the benefit of certain of AIG's insurance companies. Under this program, securities are loaned to various financial institutions, primarily major banks and brokerage firms. Cash collateral is received and is invested in fixed maturity securities to earn a net spread. Historically, AIG had received cash collateral from borrowers between 100-102 percent of the value of the loaned securities. The amount of cash advanced by borrowers has been declining, in light of the availability of alternative transactions requiring less collateral. If amounts received are insufficient to fund substantially all of the cost of purchasing identical replacements for the loaned securities, these transactions will cease to be accounted for as secured borrowings and will instead be accounted for as sales and forward purchases.

AIG's liability to the borrowers for collateral received was $42.8 billion and the fair value of the collateral reinvested was $41.5 billion as of September 30, 2008. In addition to the invested collateral, the securities on loan as well as all of the assets of the lending companies are generally available to satisfy the liability for collateral received.

A significant portion of the collateral received was invested in RMBS with cash flows with tenors longer than the liabilities to the counterparties. The value of those collateral securities declined over the last 12 months and trading in such securities has been extremely limited. Given these events, AIG began increasing liquidity in the collateral accounts by increasing the amount of cash and overnight investments that comprise the securities lending invested collateral in the third quarter of 2007.

The composition of the securities lending invested collateral by credit rating at September 30, 2008 was as follows:

(in millions)	AAA	AA	A	BBB/Not Rated	Short-Term	Total
Corporate debt	$ 472	$ 3,232	$ 2,508	$ 305	$ –	$ 6,517
Mortgage-backed, asset-backed and collateralized	21,660	4,036	1,140	2,410	–	29,246
Cash and short-term investments	–	–	–	–	5,748	5,748
Total	$ 22,132	$ 7,268	$ 3,648	$ 2,715	$ 5,748	$ 41,511

Participation in the securities lending program by reporting unit at September 30, 2008 was as follows:

	Percent Participation
Domestic Life Insurance and Domestic Retirement Services	73%
Foreign Life Insurance	13
AIG Property Casualty Group	2
Foreign General Insurance	5
Asset Management	7
Total	100%

Due to AIG-specific credit concerns and systemic issues in the financial markets in the third quarter, counterparties began curtailing their participation in the program by returning lent securities and requiring the return of cash collateral. As a result, the collateral pools did not have sufficient liquidity to satisfy these obligations. As of September 30, 2008, AIG had borrowed approximately $11.5 billion under the Fed Facility to provide liquidity to the securities lending program. As the funding from the Fed Facility and other available cash was used to satisfy liabilities to borrowers rather than sales of securities lending invested collateral, the liabilities declined more significantly than the invested collateral.

The recognition of other-than-temporary impairment charges for the securities lending collateral investments placed significant stress on the statutory surplus of the participating insurance companies. During the third quarter of 2008, AIG recognized other-than-temporary impairment charges of $11.7 billion related to these investments, including $6.9 billion of charges related to AIG's change in intent to hold these securities to maturity as it winds this program down. During the three months ended September 30, 2008, AIG contributed $14.9 billion to certain of its domestic life and retirement services subsidiaries, largely related to these charges.

On October 8, 2008, certain of AIG's domestic life insurance subsidiaries entered into the Fed Securities Lending Agreement, providing that the NY Fed will borrow, on an overnight basis on commercial terms and conditions, investment grade fixed income securities from these AIG subsidiaries in return for cash collateral. Prior to this arrangement, draw downs under the existing Fed Facility were used, in part, to settle securities lending transactions. AIG understands that the NY Fed is prepared to borrow securities to extend AIG's currently outstanding lending obligations when those obligations are not rolled over or replaced by transactions with other private market participants. These securities borrowings by the NY Fed will allow AIG to replenish liquidity to the securities lending program on an as-needed basis, while providing the NY Fed with a perfected security interest in these third party securities.

As of November 5, 2008, the total value of securities lending payables amounted to $34.2 billion, with $19.9 billion of this amount payable to the NY Fed under this agreement.

AIG and the NY Fed expect to establish a limited liability company to hold RMBS securities in the domestic securities lending program and to terminate the Fed Securities Lending Agreement and AIG's U.S. securities lending program. See Note 11 to the Consolidated Financial Statements.

Portfolio Review

Other-Than-Temporary Impairments

AIG assesses its ability to hold any fixed maturity security in an unrealized loss position to its recovery, including fixed maturity securities classified as available for sale, at each balance sheet date. The decision to sell any such fixed maturity security classified as available for sale reflects the judgment of AIG's management that the security sold is unlikely to provide, on a relative value basis, as attractive a return in the future as alternative securities entailing comparable risks. With respect to distressed securities, the sale decision reflects management's judgment that the risk-discounted anticipated ultimate recovery is less than the value achievable on sale.

AIG evaluates its investments for impairments in valuation as well as credit. The determination that a security has incurred an other-than-temporary decline in value requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. See Critical Accounting Estimates — Other-Than-Temporary Impairments herein for further information on AIG's policy.

Once a security has been identified as other-than-temporarily impaired, the amount of such impairment is determined by reference to that security's contemporaneous fair value and recorded as a charge to earnings.

As a result of AIG's periodic evaluation of its securities for other-than-temporary impairments in value, AIG recorded other-than-temporary impairment charges of $19.9 billion and $544 million in the three-month periods ended September 30, 2008 and 2007, respectively, and $32.2 billion

and $1.4 billion in the nine-month periods ended September 30, 2008 and 2007, respectively.

In light of the recent significant disruption in the U.S. residential mortgage and credit markets, AIG has recognized an other-than-temporary impairment charge (severity loss) of $7.3 billion and $16.3 billion in the three- and nine-month periods ended September 30, 2008, primarily related to certain RMBS, other structured securities and securities of financial institutions. Notwithstanding AIG's intent and ability to hold such securities indefinitely (except for securities lending invested collateral comprising $3.4 billion and $9.2 billion of the severity loss for the three- and nine-month periods ended September 30, 2008), and despite structures that indicate that a substantial amount of the securities should continue to perform in accordance with original terms, AIG concluded that it could not reasonably assert that the impairment period would be temporary.

In addition to the above severity losses, AIG recorded other-than-temporary impairment charges in the three- and nine-month periods ended September 30, 2008 and 2007 related to:

- securities that AIG does not intend to hold until recovery;
- declines due to foreign exchange rates;
- issuer-specific credit events;
- certain structured securities impaired under Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets"; and
- other impairments, including equity securities and partnership investments.

Other-than-temporary impairment charges by reporting segment were as follows:

(in millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
Three months ended September 30, 2008						
Impairment Type:						
Severity	**$ 649**	**$ 5,530**	**$ 15**	**$ 1,133**	**$ –**	**$ 7,327**
Trading at 25 percent or more discount for nine consecutive months	–	–	–	–	–	–
Lack of intent to hold to recovery	**271**	**7,462**	**6**	**560**	–	**8,299**
Foreign currency declines	**–**	**50**	–	–		**50**
Issuer-specific credit events	**908**	**2,222**	**2**	**194**	**127**	**3,453**
Adverse projected cash flows on structured securities	–	**650**	**4**	**93**	–	**747**
Total	**$ 1,828**	**$ 15,914**	**$ 27**	**$ 1,980**	**$ 127**	**$ 19,876**
Three months ended September 30, 2007						
Impairment Type:						
Severity	$ –	$ –	$ –	$ –	$ –	$ –
Trading at 25 percent or more discount for nine consecutive months	–	–	–	–	–	–
Lack of intent to hold to recovery	1	183	1	34	21	240
Foreign currency declines		29	–	–	–	29
Issuer-specific credit events	34	82	–	8	–	124
Adverse projected cash flows on structured securities	–	55	–	96	–	151
Total	$ 35	$ 349	$ 1	$ 138	$ 21	$ 544
Nine months ended September 30, 2008						
Impairment Type:						
Severity	**$ 1,394**	**$ 12,060**	**$ 42**	**$ 2,778**	**$ 1**	**$ 16,275**
Trading at 25 percent or more discount for nine consecutive months	–	–	–	–	–	–
Lack of intent to hold to recovery	**292**	**8,390**	**8**	**630**	–	**9,320**
Foreign currency declines	–	**1,084**	–	–	–	**1,084**
Issuer-specific credit events	**975**	**2,610**	**2**	**232**	**127**	**3,946**
Adverse projected cash flows on structured securities	**7**	**1,355**	**4**	**255**	–	**1,621**
Total	**$ 2,668**	**$ 25,499**	**$ 56**	**$ 3,895**	**$ 128**	**$ 32,246**
Nine months ended September 30, 2007						
Impairment Type:						
Severity	$ –	$ –	$ –	$ –	$ –	$ –
Trading at 25 percent or more discount for nine consecutive months	–	6	–	–	–	6
Lack of intent to hold to recovery	73	481	3	36	21	614
Foreign currency declines	–	333	–	–	–	333
Issuer-specific credit events	92	183	–	35	6	316
Adverse projected cash flows on structured securities	–	62	–	97	–	159
Total	$ 165	$ 1,065	$ 3	$ 168	$ 27	$ 1,428

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Financial institutions industry other-than-temporary impairment charges by industry classification were as follows:

(in millions)	Severity	Lack of Intent to Hold to Recovery	Issuer-Specific Credit Events	Total
Three months ended September 30, 2008				
Industry Classification:				
Banking	$ 719	$ 1,032	$ 399	$ 2,150
Brokerage	152	172	1,324	1,648
Insurance	9	79	56	144
Other	153	95	87	335
Total	$ 1,033	$ 1,378	$ 1,866	$ 4,277
Nine months ended September 30, 2008				
Industry Classification:				
Banking	$ 734	$ 1,086	$ 405	$ 2,225
Brokerage	193	172	1,330	1,695
Insurance	14	85	61	160
Other	245	223	125	593
Total	$ 1,186	$ 1,566	$ 1,921	$ 4,673

Other-than-temporary severity-related impairment charges for the three- and nine-month periods ended September 30, 2008 by type of security and credit rating were as follows:

Rating: *(in millions)*	RMBS	CDO	CMBS	Financial Institutions	Other Securities	Total
Three months ended September 30, 2008						
Fixed Maturities:						
AAA	**$ 3,005**	**$ 37**	**$ 150**	**$ 18**	**$ 71**	**$ 3,281**
AA	**949**	**168**	**96**	**48**	**–**	**1,261**
A	**335**	**189**	**154**	**589**	**20**	**1,287**
BBB and below	**326**	**105**	**75**	**141**	**38**	**685**
Nonrated	**–**	**–**	**–**	**–**	**12**	**12**
Equities	**–**	**–**	**–**	**237**	**564**	**801**
Total	**$ 4,615**	**$ 499**	**$ 475**	**$ 1,033**	**$ 705**	**$ 7,327**
Nine months ended September 30, 2008*						
Fixed Maturities:						
AAA	**$ 7,465**	**$ 59**	**$ 373**	**$ 18**	**$ 83**	**$ 7,998**
AA	**2,505**	**209**	**167**	**48**	**1**	**2,930**
A	**817**	**244**	**639**	**593**	**20**	**2,313**
BBB and below	**1,076**	**144**	**200**	**144**	**55**	**1,619**
Nonrated	**–**	**–**	**–**	**–**	**29**	**29**
Equities	**–**	**–**	**–**	**383**	**1,003**	**1,386**
Total	**$ 11,863**	**$ 656**	**$ 1,379**	**$ 1,186**	**$ 1,191**	**$ 16,275**

* *Ratings are as of the date of the impairment charge.*

No other-than-temporary impairment charge with respect to any one single counterparty was significant to AIG's consolidated financial condition or results of operations, and no individual other-than-temporary impairment charge exceeded five percent of the consolidated net loss in the nine-month period ended September 30, 2008.

In periods subsequent to the recognition of an other-than-temporary impairment charge for fixed maturity securities that is not credit or foreign exchange related, AIG generally accretes into income the discount or amortizes the reduced premium resulting from the reduction in cost basis over the remaining life of the security. The amount of accretion recognized in earnings for the three- and nine-month periods ended September 30, 2008 was $196 million and $283 million, respectively.

An aging of the pre-tax unrealized losses of fixed maturity and equity securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the fair value is less than amortized cost or cost), including the number of respective items, at September 30, 2008 was as follows:

Aging(a) (dollars in millions)	Less than or equal to 20% of Cost(b)			Greater than 20% to 50% of Cost(b)			Greater than 50% of Cost(b)			Total		
	Cost(c)	Unrealized Loss	Items	Cost(c)	Unrealized Loss	Items	Cost(c)	Unrealized Loss	Items	Cost(c)	Unrealized Loss(d)	Items
Investment grade bonds												
0-6 months	$160,907	$ 7,575	21,711	$ 3,722	$ 1,620	660	$ –	$ –	–	$164,629	$ 9,195	22,371
7-12 months	41,320	4,056	12,637	5,960	1,926	4,827	–	–	–	47,280	5,982	17,464
> 12 months	55,073	5,624	8,205	17,160	5,543	1,874	–	–	–	72,233	11,167	10,079
Total	$257,300	$17,255	42,553	$26,842	$ 9,089	7,361	$ –	$ –	–	$284,142	$26,344	49,914
Below investment grade bonds												
0-6 months	$ 7,625	$ 271	2,147	$ 281	$ 76	24	$ –	$ –	–	$ 7,906	$ 347	2,171
7-12 months	933	91	339	253	85	21	–	–	–	1,186	176	360
> 12 months	1,432	107	224	652	221	14	–	–	–	2,084	328	238
Total	$ 9,990	$ 469	2,710	$ 1,186	$ 382	59	$ –	$ –	–	$ 11,176	$ 851	2,769
Total bonds												
0-6 months	$168,532	$ 7,846	23,858	$ 4,003	$ 1,696	684	$ –	$ –	–	$172,535	$ 9,542	24,542
7-12 months	42,253	4,147	12,976	6,213	2,011	4,848	–	–	–	48,466	6,158	17,824
> 12 months	56,505	5,731	8,429	17,812	5,764	1,888	–	–	–	74,317	11,495	10,317
Total(e)	$267,290	$17,724	45,263	$28,028	$9,471(f)	7,420	$ –	$ –	–	$295,318	$27,195	52,683
Equity securities												
0-6 months	$ 6,027	$ 629	40,617	$ 1,507	$ 761	1,139	$ –	$ –	–	$ 7,534	$ 1,390	41,756
7-12 months	561	69	486	244	89	329	–	–	–	805	158	815
> 12 months	–	–	–	–	–	–	–	–	–	–	–	–
Total	$ 6,588	$ 698	41,103	$ 1,751	$ 850	1,468	$ –	$ –	–	$ 8,339	$ 1,548	42,571

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.
(b) Represents the percentage by which fair value is less than cost at the balance sheet date.
(c) For bonds, represents amortized cost.
(d) The effect on net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will be charged to participating policyholder accounts, or realization will result in current decreases in the amortization of certain DAC.
(e) Includes securities lending invested collateral.
(f) Of this $9.5 billion, $3.7 billion relates to RMBS, CMBS, CDOs and ABS with unrealized losses between 25 percent and 50 percent; and $1.1 billion relates to RMBS, CMBS, CDOs and ABS with unrealized losses between 20 percent and 25 percent. The balance represents all other classes of fixed maturity securities.

The aging of the unrealized losses of RMBS, CMBS, CDOs and ABS with fair values between 20 percent and 50 percent less than their cost at September 30, 2008 (in footnote (f) to the table above) is shown in the table below, which provides the period in which those securities in unrealized loss positions would become candidates for impairment solely because they have been trading at a discount for nine consecutive months (AIG's other-than-temporary aging guideline) without regard to the level of discount (AIG's other-than-temporary trading level guideline), assuming prices remained unchanged.

(In millions) Unrealized loss percent	Fourth Quarter 2008	First Quarter 2009	Second Quarter 2009	Total
25 to 50 percent	$207	$403	$3,059	$3,669
20 to less than 25 percent	$–	$1	$1,134	$1,135

Given the current difficult market conditions, AIG is not able to predict reasonably likely changes in the prices of these securities. Moreover, AIG is unable to assess the effect, if any, that potential sale of securities pursuant to TARP will have on the pricing of its available for sale securities.

Unrealized gains and losses

At September 30, 2008, the carrying value of AIG's available for sale fixed maturity and equity securities aggregated $445.5 billion. At September 30, 2008, aggregate pre-tax unrealized gains for fixed maturity and equity securities were $10.3 billion ($6.7 billion after tax).

At September 30, 2008, the aggregate pre-tax gross unrealized losses on fixed maturity and equity securities were $28.7 billion ($18.7 billion after tax). Additional information about these securities is as follows:

- These securities were valued, in the aggregate, at approximately 91 percent of their current amortized cost.
- Approximately 10 percent of these securities were valued at less than 20 percent of their current cost, or amortized cost.
- Approximately four percent of the fixed maturity securities had issuer credit ratings that were below investment grade.

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AIG did not consider these securities in an unrealized loss position to be other-than-temporarily impaired at September 30, 2008, because management has the intent and ability to hold these investments until they recover their cost basis within a recovery period deemed temporary. AIG believes the securities will generally continue to perform in accordance with the original terms, notwithstanding the present price declines.

For the three- and nine-month periods ended September 30, 2008, unrealized losses related to investment grade bonds increased $3.0 billion ($2.0 billion after tax) and $13.5 billion ($8.8 billion after tax), respectively, reflecting the widening of credit spreads, partially offset by the effects of a decline in risk-free interest rates.

The amortized cost and fair value of fixed maturity securities available for sale in an unrealized loss position at September 30, 2008, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 9,257	$ 8,914
Due after one year through five years	49,370	45,950
Due after five years through ten years	67,864	62,968
Due after ten years	100,805	90,092
Mortgage-backed, asset-backed and collateralized	68,022	60,199
Total	$295,318	$ 268,123

For the nine-month period ended September 30, 2008, the pre-tax realized losses incurred with respect to the sale of fixed maturities and equity securities were $1.7 billion. The aggregate fair value of securities sold was $20.6 billion, which was approximately 92 percent of amortized cost. The average period of time that securities sold at a loss during the nine-month period ended September 30, 2008 were trading continuously at a price below book value was approximately five months. See Risk Management — Corporate Risk Management — Credit Risk Management in the 2007 Annual Report on Form 10-K for an additional discussion of investment risks associated with AIG's investment portfolio.

Certain of AIG's foreign subsidiaries included in the consolidated financial statements report on a fiscal period ended August 31. The effect on AIG's consolidated financial condition and results of operations of all material events occurring between August 31 and September 30 for all periods presented has been recorded. Due to the significant and rapid world-wide market decline, in September 2008, AIG determined this to be an intervening event that had a material effect on its consolidated financial position and results of operations. AIG reflected this recent market decline throughout its investment portfolio. Accordingly, AIG recorded $1.3 billion ($845 million after tax) of hedge and mutual fund investment losses in net investment income, $1.1 billion ($910 million after tax) of other than temporary impairment charges, and $5.4 billion ($3.2 billion after tax) of unrealized depreciation on investments.

Risk Management

For a complete discussion of AIG's risk management program, see Risk Management in the 2007 Annual Report on Form 10-K.

The recent unprecedented market turmoil, particularly in the residential mortgage-backed securities market, led to severe declines in the prices of highly-rated asset backed securities and reduced liquidity for these securities. The unanticipated price declines and reduction of liquidity exceeded the parameters historically used by AIG for purposes of asset-liability and liquidity management processes. AIG is responding to these developments by enhancing its risk management processes and stress testing. The continuation of such market turmoil and associated price declines and limited liquidity have severely constrained AIG's alternatives for mitigating its exposure to credit, market and liquidity risks.

AIG has continued to invest in human resources, systems and processes in the enterprise risk management functions, both at the corporate and business unit levels. These efforts include implementing systems and processes to ensure the aggregation of the various categories of risk across business units and as a whole, and incorporating forward-looking analyses and stress tests. These initiatives are ongoing and will take time to implement. As AIG divests of certain operations, enterprise risk management will be focused on maintaining appropriate human resources, oversight and controls for the remaining operations.

Credit Risk Management

AIG defines its aggregate credit exposures to a counterparty as the sum of its fixed maturities, loans, finance leases, derivatives (mark to market), deposits (in the case of financial institutions) and the specified credit equivalent exposure to certain insurance products which embody credit risk.

The following table presents AIG's largest credit exposures at September 30, 2008 as a percentage of total consolidated shareholders' equity:

Category	Risk Rating(a)	Credit Exposure as a Percentage of Total Consolidated Shareholders' Equity
Investment Grade:		
10 largest combined	A+ (weighted) average(b)	128.9%
Single largest non-sovereign (financial institution)	A-	17.9
Single largest corporate	AAA	7.4
Single largest sovereign	A	23.3
Non-Investment Grade:		
Single largest sovereign	BB-	2.5
Single largest non-sovereign	BB	0.7

(a) Risk rating is based on AIG's internal risk ratings process.
(b) Five of the ten largest credit exposures are to highly-rated financial institutions and four are to investment-grade rated sovereigns; none is rated lower than BBB or its equivalent.

AIG monitors its aggregate cross-border exposures by country and regional group of countries. AIG defines its cross-border exposure to include both cross-border credit exposures and its large cross-border investments in its own international subsidiaries. Fourteen countries had cross-border exposures in excess of 10 percent of total consolidated shareholders' equity at September 30, 2008. At that date nine were AAA-rated, two were AA-rated and three were A-rated.

In addition, AIG reviews its industry concentrations. Excluding the U.S. residential and commercial mortgage sectors, AIG's single largest industry credit exposure is to the global financial institutions sector comprised of banks, securities firms, insurance companies and finance companies.

The following table presents AIG's largest credit exposures to the global financial institution sector at September 30, 2008 as a percentage of total consolidated shareholders' equity:

Industry Category	Credit Exposure as a Percentage of Consolidated Shareholders' Equity
Money Center / Global Bank Groups	121.0%
Global Life Insurance Carriers	24.8
European Regional Financial Institutions	21.6
Global Securities Firms and Exchanges	17.2
Global Reinsurance Firms	16.2
North American Based Regional Financial Institutions	15.5
Asian Regional Financial Institutions	10.7

AIG's exposure to the five largest money center/global bank group institutions was 59 percent of shareholders' equity.

AIG's other industry credit concentrations in excess of 10 percent of total consolidated shareholders' equity are in the following industries (in descending order by approximate size):

- Oil and gas;
- Electric and water utilities;
- Global telecommunications companies;
- Conglomerates;
- Pharmaceutical and healthcare companies;
- Government sponsored entities;
- Retail companies; and
- Food and beverage companies.

Other than as described above, there were no significant changes to AIG's credit exposures as set forth in Risk Management — Corporate Risk Management — Credit Risk Management in the 2007 Annual Report on Form 10-K.

Market Risk Management

Insurance, Asset Management and Non-Trading Financial Services Value at Risk (VaR)

AIG performs a VaR analysis across all of its non-trading businesses, and a separate VaR analysis for its trading business at AIGFP. The comprehensive VaR is categorized by AIG business segment (General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management) and also by market risk factor (interest rate, currency and equity). AIG's market risk VaR calculations include exposures to benchmark Treasury or swap interest rates, but do not include exposures to credit-based factors such as credit spreads. AIG's credit exposures within its invested assets and credit derivative portfolios are discussed in Risk Management — Segment Risk Management — Financial Services in the 2007 Annual Report on Form 10-K.

For the insurance segments, assets included are invested assets (excluding direct holdings of real estate) and liabilities included are reserve for losses and loss expenses, reserve for unearned premiums, future policy benefits for life and accident and health insurance contracts and other policyholders' funds. For financial services companies, loans and leases represent the majority of assets represented in the VaR calculation, while bonds and notes issued represent the majority of liabilities. Parent company assets and liabilities (other than those pertaining to funding under the Fed Facility and consideration received for Series C Preferred Stock not yet issued) are included in the Total AIG VaR figures.

AIG calculated the VaR with respect to net fair values as of September 30, 2008 and December 31, 2007. The VaR number represents the maximum potential loss as of those dates that could be incurred with a 95 percent confidence (i.e., only five percent of historical scenarios show losses greater than the VaR figure) within a one-month holding

period. AIG uses the historical simulation methodology that entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. AIG uses the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices. For each scenario, each transaction was repriced. Segment and AIG-wide scenario values are then calculated by netting the values of all the underlying assets and liabilities.

The following table presents the period-end, average, high and low VaRs on a diversified basis and of each component of market risk for AIG's non-trading businesses. The diversified VaR is usually smaller than the sum of its components due to correlation effects.

	2008				2007			
	As of	Nine Months Ended September 30,			As of	Year Ended December 31,		
(in millions)	September 30,	Average	High	Low	December 31,	Average	High	Low
Total AIG non-trading market risk:								
Diversified	**$7,347**	**$6,609**	**$7,347**	**$5,593**	$5,593	$5,316	$5,619	$5,073
Interest rate	**5,380**	**4,944**	**5,380**	**4,383**	4,383	4,600	4,757	4,383
Currency	**772**	**856**	**1,022**	**772**	785	729	785	685
Equity	**3,410**	**3,111**	**3,410**	**2,627**	2,627	2,183	2,627	1,873
General Insurance:								
Diversified	**$1,330**	**$1,357**	**$1,377**	**$1,330**	$1,363	$1,637	$1,892	$1,363
Interest rate	**1,279**	**1,173**	**1,279**	**1,078**	1,117	1,492	1,792	1,117
Currency	**147**	**259**	**328**	**147**	255	222	255	205
Equity	**971**	**961**	**1,030**	**835**	835	659	835	573
Life Insurance & Retirement Services:								
Diversified	**$6,698**	**$6,064**	**$6,698**	**$5,180**	$5,180	$4,848	$5,180	$4,574
Interest rate	**5,351**	**4,850**	**5,351**	**4,405**	4,405	4,465	4,611	4,287
Currency	**752**	**707**	**807**	**621**	649	621	678	568
Equity	**2,332**	**2,137**	**2,332**	**1,810**	1,810	1,512	1,810	1,293
Non-Trading Financial Services:								
Diversified	**$ 165**	**$ 140**	**$ 167**	**$ 99**	$ 99	$ 117	$ 170	$ 85
Interest rate	**166**	**137**	**166**	**95**	95	116	168	76
Currency	**17**	**15**	**17**	**13**	13	12	13	11
Equity	**2**	**1**	**2**	**1**	1	1	1	1
Asset Management:								
Diversified	**$ 141**	**$ 73**	**$ 141**	**$ 38**	$ 38	$ 49	$ 74	$ 26
Interest rate	**138**	**67**	**138**	**32**	32	45	72	22
Currency	**12**	**4**	**12**	**2**	2	3	5	2
Equity	**8**	**11**	**13**	**8**	13	11	13	8

AIG's total non-trading market risk VaR increased from $5.6 billion at year-end 2007 to $7.3 billion at September 30, 2008. The VaR increase was driven primarily by higher volatilities in equity markets globally and interest rates in the U.S.

Capital Markets Trading VaR

AIGFP attempts to minimize risk in benchmark interest rates, equities, commodities and foreign exchange. Market exposures in option implied volatilities, correlations and basis risks are also minimized over time.

AIGFP's minimal reliance on market risk driven revenue is reflected in its VaR. AIGFP's VaR calculation is based on the interest rate, equity, commodity and foreign exchange risk arising from its portfolio. Credit-related factors, such as credit spreads or credit default, are not included in AIGFP's VaR calculation. Because the market risk with respect to securities available for sale, at market, is substantially hedged, segregation of the financial instruments into trading and other than trading was not considered necessary. AIGFP operates under established market risk limits based upon this VaR calculation. In addition, AIGFP backtests its VaR.

In the calculation of VaR for AIGFP, AIG uses the historical simulation methodology based on estimated changes to the value of all transactions under explicit changes in market rates and prices within a specific historical time period. AIGFP attempts to secure reliable and independent current market prices, such as published exchange prices, external subscription services such as Bloomberg or Reuters, or third-party or broker quotes. When such prices are not available, AIGFP uses an internal methodology that includes extrapolation from observable and verifiable prices nearest to the dates of the transactions. Historically, actual results have not deviated from these models in any material respect.

AIGFP reports its VaR level using a 95 percent confidence level and a one-day holding period, facilitating risk comparison

with AIGFP's trading peers and reflecting the fact that market risks can be actively assumed and offset in AIGFP's trading portfolio.

The following table presents the year-end, average, high, and low VaRs on a diversified basis and of each component of market risk for Capital Markets operations. The diversified VaR is usually smaller than the sum of its components due to correlation effects.

		Nine Months Ended September 30,				Year Ended December 31,		
(in millions)	As of September 30,	Average	High	Low	As of December 31,	Average	High	Low
Capital Markets trading market risk:								
Diversified	**$ 5**	**$ 6**	**$ 9**	**$ 4**	$ 5	$ 5	$ 8	$ 4
Interest rate	**3**	**2**	**4**	**1**	3	2	3	2
Currency	**3**	**1**	**4**	**–**	1	1	2	1
Equity	**2**	**2**	**4**	**2**	3	3	5	2
Commodity	**2**	**4**	**7**	**2**	3	3	7	2

See Valuation of Level 3 Assets and Liabilities for a comprehensive discussion of AIGFP's super senior credit default swap portfolio.

Insurance Risk Management

Catastrophe Exposures

The nature of AIG's business exposes it to various catastrophic events in which multiple losses across multiple lines of business can occur in any calendar year. To control this exposure, AIG uses a combination of techniques, including setting aggregate limits in key business units, monitoring and modeling accumulated exposures, and purchasing catastrophe reinsurance to supplement its other reinsurance protections.

Natural disasters such as hurricanes, earthquakes and other catastrophes have the potential to adversely affect AIG's operating results. Other risks, such as an outbreak of a pandemic disease, such as the Avian Influenza A Virus (H5N1), could adversely affect AIG's business and operating results to an extent that may be only partially offset by reinsurance programs.

AIG evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through the use of industry recognized models, among other techniques. AIG updates these models by periodically monitoring the exposure risks of AIG's worldwide General Insurance operations. Following is an overview of modeled losses associated with the more significant natural perils, which includes exposures for AIG Property Casualty Group and Foreign General (other than Ascot). Transatlantic and Ascot utilize a different model, and their results are presented separately below. Significant Life Insurance and accident and health exposures have been added to these results as well. The modeled results assume that all reinsurers fulfill their obligations to AIG in accordance with their terms.

It is important to recognize that there is no standard methodology to project the possible losses from total property and workers' compensation exposures. Further, there are no industry standard assumptions to be utilized in projecting these losses. The use of different methodologies and assumptions could materially change the projected losses. Therefore, these modeled losses may not be comparable to estimates made by other companies. These estimates are inherently uncertain and may not reflect AIG's maximum exposures to these events. It is highly likely that AIG's losses will vary, perhaps significantly, from these estimates.

AIG has revised the catastrophe exposure disclosures presented below from that presented in the 2007 Annual Report on Form 10-K to reflect more recent data for AIG's Property Casualty Group, as well as reinsurance programs in place as of September 1, 2008. The modeled results provided in the table below were based on the aggregate exceedence probability (AEP) losses which represent total property, workers' compensation, life, and accident and health losses that may occur in any single year from one or more natural events. The updated Property Casualty Group property exposures were modeled with exposure data as of June 2008. The values provided were based on 100-year return period losses, which have a one percent likelihood of being exceeded in any single year. Thus, the model projects that there is a one percent probability that AIG could incur in any year losses in excess of the modeled amounts for these perils. Losses include loss adjustment expenses and the net values include reinstatement premiums.

(in millions)	Gross	Net of 2008 Reinsurance	Net After Income Tax	% of Consolidated Shareholders' Equity at September 30, 2008
Natural Peril:				
Earthquake	$6,627	$4,098	$2,664	3.7%
Tropical Cyclone*	$6,850	$4,094	$2,661	3.7%

* *Includes hurricanes, typhoons and European Windstorms.*

Both gross earthquake and tropical cyclone modeled losses increased $1.0 billion compared to estimates included in the 2007 Annual Report on Form 10-K while net after tax losses increased $456 million and $431 million, respectively. These increases are mainly attributable to growth in Lexington, Private Client Group and energy.

In addition to the return period loss, AIG evaluates potential single event earthquake and hurricane losses that may be incurred. The single events utilized are a subset of potential events identified and utilized by Lloyd's *(see Lloyd's Realistic Disaster Scenarios, Scenario Specifications, April 2006)* and referred to as Realistic Disaster Scenarios (RDSs). The purpose of this analysis is to utilize these RDSs to provide a reference frame and place into context the model results. However, it is important to note that the specific events used for this analysis do not necessarily represent the worst case loss that AIG could incur from this type of an event in these regions. The losses associated with the RDSs are included in the following table.

Single event modeled property and workers' compensation losses to AIG's worldwide portfolio of risk for key geographic areas are set forth below. Gross values represent AIG's liability after the application of policy limits and deductibles, and net values represent losses after reinsurance is applied; net losses also include reinsurance reinstatement premiums. Both gross and net losses include loss adjustment expenses.

(in millions)	Gross	Net of 2008 Reinsurance
Natural Peril:		
San Francisco Earthquake	$7,294	$4,573
Miami Hurricane	$7,335	$3,834
Los Angeles Earthquake	$6,336	$3,986
Northeast Hurricane	$5,012	$2,978
Gulf Coast Hurricane	$4,376	$2,476
Japanese Earthquake	$1,109	$ 406
European Windstorm	$ 252	$ 89
Japanese Typhoon	$ 177	$ 103

AIG also monitors key international property risks utilizing modeled statistical return period losses as well. Based on these simulations, the 100-year return period loss for Japanese Earthquake is $510 million gross, and $170 million net, the 100-year return period loss for European Windstorm is $448 million gross, and $154 million net, and the 100-year return period loss for Japanese Typhoon is $340 million gross, and $212 million net.

The losses provided above do not include Transatlantic or Ascot. The one in 100 year AEP amounts for Ascot and AIG's share (59 percent) of Transatlantic are as follows:

(in millions)	Gross	Net of 2008 Reinsurance	Net After Income Tax
Natural Peril:			
Ascot Earthquake	$380	$ 76	$ 49
Ascot Tropical Cyclone*	$422	$169	$110
AIG's Share of Transatlantic Earthquake	$452	$406	$264
AIG's Share of Transatlantic Tropical Cyclone*	$618	$577	$375

* *The Ascot amounts are based on data as of June 30, 2008 and the Transatlantic amounts are based on data as of July 1, 2008.*

Terrorism

Exposure to loss from terrorist attack is controlled by limiting the aggregate accumulation of workers' compensation and property insurance that is underwritten within defined target locations. Modeling is used to provide projections of probable maximum loss by target location based upon the actual exposures of AIG policyholders.

Terrorism risk is monitored to manage AIG's exposure. AIG shares its exposures to terrorism risks under the Terrorism Risk Insurance Act (TRIA). During 2007, AIG's deductible under TRIA was approximately $4.0 billion, with a 15 percent share of certified terrorism losses in excess of the deductible. As of January 1, 2008, the deductible increased to approximately $4.2 billion, with a 15 percent share of certified terrorism losses in excess of the deductible.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. Controls and Procedures

In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was carried out by AIG's management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Solely as a result of the previously identified material weakness in internal control over the fair value valuation of the AIGFP super senior credit default swap portfolio and oversight thereof as described in the 2007 Annual Report on Form 10-K, AIG's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2008, AIG's disclosure controls and procedures were ineffective. Notwithstanding the existence of this material weakness, AIG believes that the consolidated financial statements in this Quarterly Report on Form 10-Q fairly present, in all material respects, AIG's consolidated financial condition as of September 30, 2008 and December 31, 2007 and consolidated results of operations for the three- and nine-month periods ended September 30, 2008 and 2007 and consolidated cash flows for the nine-month periods ended September 30, 2008 and 2007, in conformity with GAAP. In addition, there has been no change in AIG's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, AIG's internal control over financial reporting.

Throughout 2008 and 2007, AIG recorded out of period adjustments, many of which were detected as part of continuing remediation efforts. It is AIG's policy to record all error corrections, without regard to materiality, and AIG has an established, formal process for the identification, evaluation and recording of all out of period adjustments. This process includes a heightened sensitivity for potential errors related to the internal control matters discussed in Item 9A. of the 2007 Annual Report on Form 10-K. AIG distinguishes error corrections from changes in estimates by evaluating the facts and circumstances of such items, including considering whether information was capable of being known at the time of original recording. AIG has evaluated the adjustments recorded in 2008 and 2007 from a qualitative and quantitative perspective and concluded that such adjustments are immaterial individually and in the aggregate to the current and prior periods.

Table of Contents

Part II – OTHER INFORMATION

ITEM 1. Legal Proceedings

Included in Note 7(a) to the Consolidated Financial Statements.

ITEM 1A. Risk Factors

Included in Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 6. Exhibits

See accompanying Exhibit Index.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.
(Registrant)

/s/ David L. Herzog
David L. Herzog
Executive Vice President
Chief Financial Officer
Principal Accounting Officer

Dated: November 10, 2008

EXHIBIT INDEX

Exhibit Number	Description	Location
10.1	Release agreement with Steven J. Bensinger	
10.2	Letter from Robert B. Willumstad to Edward M. Liddy	
10.3	Letter Agreement, dated November 9, 2008, between American International Group, Inc. and the United States Department of the Treasury	
10.4	Amendment No. 2, dated as of November 9, 2008, to Credit Agreement, dated as of September 22, 2008, between American International Group, Inc. and the Federal Reserve Bank of New York	
11	Statement re computation of per share earnings	Included in Note 5 of Notes to Consolidated Financial Statements.
12	Computation of ratios of earnings to fixed charges	Filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications	Filed herewith.

Exhibit 10.1

Release Of Claims

1. Release of Claims

In partial consideration of the payments and benefits described in Section 9 of the employment agreement effective March 14, 2005, by and between Steven J. Bensinger ("Executive") and American International Group, Inc. (the "Company"), as amended by the Letter from the Company to the Executive dated March 12, 2008 and the Letter Agreement between the Executive and the Company dated May 8, 2008 (collectively, the "Employment Agreement"), all as set forth in Exhibit A to this Release and to which Executive agrees Executive is not entitled until and unless he executes this Release, Executive, for and on behalf of himself and his heirs and assigns, subject to the following two sentences hereof, hereby waives and releases any employment, compensation or benefit-related common law, statutory or other complaints, claims, charges or causes of action of any kind whatsoever, both known and unknown, in law or in equity, which Executive ever had, now has or may have against the Company and its shareholders (other than C.V. Starr & Co., Inc. and Starr International Company, Inc.), subsidiaries, successors, assigns, directors, officers, partners, members, employees or agents (collectively, the "Releasees") by reason of facts or omissions which have occurred on or prior to the date that Executive signs this Release, including, without limitation, any complaint, charge or cause of action arising under federal, state or local laws pertaining to employment, including the Age Discrimination in Employment Act of 1967 ("ADEA," a law which prohibits discrimination on the basis of age), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans With Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, all as amended; and all other federal, state and local laws and regulations. By signing this Release, Executive acknowledges that he intends to waive and release any rights known or unknown that he may have against the Releasees under these and any other laws; provided, that Executive does not waive or release claims with respect to the right to enforce the Employment Agreement (the "Unreleased Claims"). Notwithstanding the foregoing, Executive does not release, discharge or waive any rights to indemnification that he may have under the certificate of incorporation, the bylaws or equivalent governing documents of the Company or its subsidiaries or affiliates, the laws of the State of Delaware or any other state of which such subsidiary or affiliate is a domiciliary, or any indemnification agreement between Executive and the Company, or any rights to insurance coverage under any directors' and officers' personal liability insurance or fiduciary insurance policy.

2. Proceedings

Executive acknowledges that he has not filed any complaint, charge, claim or proceeding, except with respect to an Unreleased Claim, if any, against any of the Releasees before any local, state or federal agency, court or other body (each individually a "Proceeding"). Executive represents that he is not aware of any basis on which such a Proceeding could reasonably be instituted. Executive (i) acknowledges that he will not initiate or cause to be initiated on his behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (ii) waives any right he may have to

benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). Further, Executive understands that, by executing this Release, he will be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Releasees. Notwithstanding the above, nothing in Section 1 of this Release shall prevent Executive from (i) initiating or causing to be initiated on his behalf any complaint, charge, claim or proceeding against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of his claims under the ADEA contained in Section 1 of this Release (but no other portion of such waiver); or (ii) initiating or participating in an investigation or proceeding conducted by the EEOC.

3. Time to Consider

Executive acknowledges that he has been advised that he has twenty-one (21) days from the date of receipt of this Release to consider all the provisions of this Release and he does hereby knowingly and voluntarily waive said given twenty-one (21) day period. EXECUTIVE FURTHER ACKNOWLEDGES THAT HE HAS READ THIS RELEASE CAREFULLY, HAS BEEN ADVISED BY THE COMPANY TO, AND HAS IN FACT, CONSULTED AN ATTORNEY, AND FULLY UNDERSTANDS THAT BY SIGNING BELOW HE IS GIVING UP CERTAIN RIGHTS WHICH HE MAY HAVE TO SUE OR ASSERT A CLAIM AGAINST ANY OF THE RELEASEES, AS DESCRIBED IN SECTION 1 OF THIS RELEASE AND THE OTHER PROVISIONS HEREOF. EXECUTIVE ACKNOWLEDGES THAT HE HAS NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS RELEASE, AND EXECUTIVE AGREES TO ALL OF ITS TERMS VOLUNTARILY.

4. Revocation

Executive hereby acknowledges and understands that Executive shall have seven (7) days from the date of his execution of this Release to revoke this Release (including, without limitation, any and all claims arising under the ADEA) and that neither the Company nor any other person is obligated to provide any benefits to Executive pursuant to Section 9 of the Employment Agreement until eight (8) days have passed since Executive's signing of this Release without Executive having revoked this Release, in which event the Company immediately shall arrange and/or pay for any such benefits otherwise attributable to said eight (8) day period, consistent with the terms of the Employment Agreement. If Executive revokes this Release, Executive will be deemed not to have accepted the terms of this Release, and no action will be required of the Company under any section of this Release.

5. No Admission

This Release does not constitute an admission of liability or wrongdoing of any kind by Executive or the Company.

6. General Provisions

A failure of any of the Releasees to insist on strict compliance with any provision of this Release shall not be deemed a waiver of such

provision or any other provision hereof. If any provision of this Release is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable, and in the event that any provision is determined to be entirely unenforceable, such provision shall be deemed severable, such that all other provisions of this Release shall remain valid and binding upon Executive and the Releasees.

7. Governing Law

The validity, interpretations, construction and performance of this Release shall be governed by the laws of the State of New York without giving effect to conflict of laws principles.

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand as of the day and year set forth opposite his signature below.

/s/ Steven J. Bensinger
Steven J. Bensinger

Date: October 9, 2008

Acknowledged and agreed.

American International Group, Inc.

By: /s/ Anastasia D. Kelly
Anastasia D. Kelly
Executive Vice President & General Counsel

Exhibit A

Steven J. Bensinger
Compensation Due Upon Termination

	As of October 8, 2008	
Value under extended employment agreement and May 8 Letter Agreement		
- Severance payable in equal installments over 12 months[1]	$7,500,000	
- Pro Rata Bonus based on Target of $2 MM[2]	$1,500,000	
	$9,000,000	
Severance period ends:	**10/8/2009**	
2-year equity vesting window[4] ends:	**10/8/2010**	
- RSUs granted Jan 2008	$95,120	23,780 RSUs scheduled to vest in January 2010 during the 2-year period following termination[4]
- 2005-06 AIG DCPPP	$128,000	1st and 2nd tranches of 16,000 shares each scheduled to vest in May 2009 & May 2010 during 2-year period following termination[4]
- 2006-07 PP	$23,020	GEC earnout of 119.9%. 1st tranche of 5,755 shares is scheduled to vest in January 2010 during the 2-year period following termination[4], 2nd tranche of 5,755 shares normally vests in January 2012, subsequent to the 2-year period following termination[4]
- 2007-08 PP	$0	No earnout projected. Normal vesting dates are January 2011 and January 2013, both subsequent to the 2-year period following termination[4]
- 2008-09 PP	$0	No earnout projected. Normal vesting dates are January 2011 and January 2012, both subsequent to the 2-year period following termination[4]
- 2005 SPP	$0	Normal vesting date is January 2011, subsequent to the 2-year period following termination[4]
- 2004-06 SPP	$1,032,813	1st tranche of $1,032,813 scheduled to vest during the 2-year period following termination[4] in January 2010; 2nd tranche normally vests in January 2012, subsequent to the 2-year period following termination[4]
- 2005-07 SPP	$0	Normal vesting dates are in January 2011 and January 2013, subsequent to the 2-year period following termination[4]
- 2006-08 SPP	$0	No earnout projected for the 2007-08 PP therefore there would be no earnout for the 2006-08 SPP; normal vesting dates are January 2011 and January 2012, subsequent to the 2-year period following termination[4]
	$1,278,953 [3]	
TOTAL:	**$10,278,953**[3]	

1. Start of severance payments subject to six-month delay as per Section 409A
2. To be paid October 17, 2008
3. As an estimate, all equity grants included in the schedule are valued at $4 per share
4. 2-year equity & SPP vesting window as defined by the ESP

All options are currently underwater and are not included above.
However, options continue to vest during the two-year period following termination and continue to be exercisable per the terms in the award agreement.

Per the May 8, 2008 Letter Agreement, AIG agrees to address and attempt to resolve in good faith Mr. Bensinger's rights under AIG's Partners Plan, AIG's Senior Partners Plan and the Starr International Company, Inc. Plans.

All insurance and other benefits payable will be provided in accordance with the terms of the Employment Agreement for 36 months following the Termination Date.

The terms of all benefits not listed in this Exhibit will be determined pursuant to the Employment Agreement and any applicable plans.

Date: October 09, 2008

Steven J. Bensinger

American International Group, Inc.

By:

Date: October 09, 2008

Anastasia D. Kelly
Executive Vice President & General Counsel

Exhibit 10.2

Mr. Edward M. Liddy
Chairman and Chief Executive Officer
American International Group, Inc.

Dear Ed:

As you know, the Board of Directors of the company decided that my termination was “not for cause.” Accordingly, I am entitled to receive severance payments under the AIG Executive Severance Plan of approximately $22 million. While I appreciate the Board’s intention to fulfill this obligation, I have decided, after careful deliberation, to forgo the severance payments.

I will not accept the severance payments for two reasons. First, my three-month tenure as Chief Executive Officer did not provide the opportunity to execute the restructuring I had developed with the help of my AIG colleagues. Second, notwithstanding the issues that predated my term at AIG or the significant disruption in the capital markets which impacted several major financial institutions, I prefer not to receive severance payments while shareholders and employees have lost considerable value in their AIG shares.

I wish you, the Board and all of the talented employees at AIG all the best as you continue the work of restructuring the company and restoring it to profitability.

Sincerely yours,

/s/ Robert B. Willumstad

Robert B. Willumstad

Exhibit 10.3

The undersigned hereby confirm that they have reached an agreement in principle consistent with the annexed term sheet for the purchase and sale of the Senior Preferred Stock and Warrant.

UNITED STATES DEPARTMENT OF THE TREASURY	AMERICAN INTERNATIONAL GROUP, INC.
By: /s/ Neel Kashkari	By: /s/ Edward M. Liddy
Neel Kashkari — Interim Assistant Secretary For Financial Stability	

Dated: November 9, 2008

Annex

Term Sheet for the purchase and sale of the Senior Preferred Stock and Warrant

[Attached]

TARP AIG SSFI Investment

Senior Preferred Stock and Warrant

Summary of Senior Preferred Terms

Issuer:	American International Group, Inc. ("AIG").
Initial Holder:	United States Department of the Treasury (the "UST").
Size:	$40 Billion aggregate liquidation preference.
Security:	Senior Preferred, liquidation preference $10,000 per share; provided that UST may, upon transfer of the Senior Preferred, require AIG to appoint a depositary to hold the Senior Preferred and issue depositary receipts.
Ranking:	Senior to common stock and pari passu with existing preferred shares other than preferred shares which by their terms rank junior to the Senior Preferred. At the meeting of stockholders called to effect the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock, AIG shall propose an amendment to its Restated Certificate of Incorporation to allow the Senior Preferred to rank senior to the convertible preferred stock.
Term:	Perpetual life.
Dividend:	The Senior Preferred will accrue cumulative dividends at a rate of 10% per annum. Dividends will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year. Dividends will be payable when, as and if declared by the Board of Directors of AIG. Accrued but unpaid dividends shall compound quarterly.
Redemption:	At any time that (i) the AIG Credit Facility Trust (or any successor entity established for the benefit of the United States Treasury) "beneficially owns" less than 30% of the aggregate voting power of AIG's voting securities and (ii) no holder of the Senior Preferred controls AIG, then AIG may redeem the Senior Preferred in whole or in part at a redemption price equal to 100% of its liquidation preference, plus an amount equal to accrued and unpaid dividends (including, if applicable, dividends on such amount). "Control" for this purpose means the power to direct the management and policies of AIG, directly or indirectly, whether through the ownership of voting securities, by contract, by the power to control AIG's Board of Directors or otherwise. "Beneficially owns" is as defined in Rule 13d-3 under the Securities Exchange Act of 1934. For the avoidance of doubt, while there is AIG's Board of Directors control (or the potential to gain AIG's Board of Directors control) by the holder of the Senior Preferred, then AIG is not permitted to redeem the Senior Preferred.
Restrictions on Dividends:	Subject to certain exceptions, for as long as any Senior Preferred

is outstanding, no dividends may be declared or paid on junior preferred shares, preferred shares ranking pari passu with the Senior Preferred (“Parity Stock”), or common shares (other than (i) in the case of pari passu preferred shares, dividends on a pro rata basis with the Senior Preferred and (ii) in the case of junior preferred shares, dividends payable solely in common shares), nor may AIG repurchase or redeem any junior preferred shares, preferred shares ranking pari passu with the Senior Preferred or common shares, unless all accrued and unpaid dividends for all past dividend periods on the Senior Preferred are fully paid or declared and a sum sufficient for the payment thereof set apart.

Common dividends: The UST’s consent shall be required for any increase in common dividends per share until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties.

Repurchases: The UST’s consent shall be required for repurchases of any common shares, other capital stock, trust preferred securities or other equity securities (other than (i) repurchases of the Senior Preferred, (ii) repurchases of junior preferred shares or common shares (“Junior Stock”) in connection with the administration of any employee benefit plan in the ordinary course of business and consistent with past practice (including purchases to offset share dilution pursuant to a publicly announced repurchase plan), (iii) any redemption or repurchase of rights pursuant to any stockholders’ rights plan and (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case, solely to the extent required pursuant to binding contractual agreements entered into prior to the signing date of UST’s agreement to purchase the Senior Preferred or any subsequent agreement for the accelerated exercise, settlement or exchange thereof for common stock), until the fifth anniversary of the date of this investment unless prior to such fifth anniversary the Senior Preferred is redeemed in whole or the UST has transferred all of the Senior Preferred to third parties. Notwithstanding the foregoing, following the redemption in whole of the Senior Preferred held by UST or the transfer by UST of all of the Senior Preferred to one or more third parties not affiliated with UST, AIG may repurchase, in whole or in part, at any time the Warrant then held by UST at the fair market value of the Warrant so long as no holder of the Warrant controls AIG as provided in clause (ii) of “Redemption” above.

Voting rights: The Senior Preferred shall be non-voting, other than class voting rights on (i) any authorization or issuance of shares other than the convertible preferred stock ranking senior or pari passu to the Senior Preferred, (ii) any amendment that adversely affects the rights of Senior Preferred, or (iii) any merger, exchange or similar transaction unless the Senior Preferred remains outstanding or is converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent and the Senior Preferred or such preference shares have such rights, preferences, privileges and voting powers, and limitations and restrictions thereof, taken as a whole, as are not materially less

	favorable to the holders thereof than those of the Senior Preferred immediately prior to such transaction, taken as a whole. If dividends on the Senior Preferred are not paid in full for four dividend periods, whether or not consecutive, the Senior Preferred will have the right to elect the greater of 2 directors and a number of directors (rounded upward) equal to 20% of the total number of directors after giving effect to such election. The right to elect directors will end when full dividends have been paid for all past dividend periods.
Transferability:	The Senior Preferred will not be subject to any contractual restrictions on transfer other than such as are necessary to insure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Senior Preferred as promptly as practicable, but in any event within 15 days, after notification by the UST and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Senior Preferred, AIG will also grant to the UST piggyback registration rights for the Senior Preferred and will take such other steps as may be reasonably requested to facilitate the transfer of the Senior Preferred including, if requested by the UST, using reasonable best efforts to list the Senior Preferred on a national securities exchange. If requested by the UST, AIG will appoint a depositary to hold the Senior Preferred and issue depositary receipts.
Claim in Bankruptcy:	Equity claim with liquidation preference to common equity claim.
Acceleration Rights:	None
Use of Proceeds:	To repay the senior secured revolving credit facility governed by the Credit Agreement dated as of September 22, 2008 (the “Credit Agreement”) between AIG and the Federal Reserve Bank of New York (“FRBNY”).
Tax Treatment:	Dividends on the Senior Preferred are non tax-deductible to AIG.
Restrictions on Expenses:	AIG shall continue to maintain and implement its comprehensive written policy on corporate expenses and distribute such policy to all AIG employees. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries; (iii) govern (a) the hosting, sponsorship or other

payment for conferences and events, (b) the use of corporate aircraft, (c) travel accommodations and expenditures, (d) consulting arrangements with outside service providers, (e) any new lease or acquisition of real estate, (f) expenses relating to office or facility renovations or relocations and (g) expenses relating to entertainment or holiday parties; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

Restrictions on Lobbying: AIG shall continue to maintain and implement its comprehensive written policy on lobbying, governmental ethics and political activity and distribute such policy to all AIG employees and lobbying firms involved in any such activity. Such policy, as may be amended from time to time, shall remain in effect at least until such time as any of the shares of the Senior Preferred are owned by the UST. Any material amendments to such policy shall require the prior written consent of the UST until such time as the UST no longer owns any shares of Senior Preferred, and any material deviations from such policy, whether in contravention thereof or pursuant to waivers provided for thereunder, shall promptly be reported to the UST. Such policy shall, at a minimum: (i) require compliance with all applicable law; (ii) apply to AIG and all of its subsidiaries and affiliated foundations; (iii) govern (a) the provision of items of value to any government officials, (b) lobbying and (c) political activities and contributions; and (iv) provide for (a) internal reporting and oversight and (b) mechanisms for addressing non-compliance with the policy.

Reporting: Except as otherwise agreed, AIG shall provide the UST (i) the information required to be provided by AIG to the FRBNY pursuant to Section 5.04 of the Credit Agreement, (ii) the notices required by Section 5.05 of the Credit Agreement, in each case within the time periods for delivery thereof specified in the Credit Agreement and (iii) such executive compensation information as is required for purposes of the Emergency Economic Stabilization Act of 2008 (“EESA”) and the regulations and guidelines thereunder; provided that, after the termination of the Credit Agreement, such informational and notice requirements as are provided in Section 5.04 and Section 5.05 of the Credit Agreement shall remain in full force and effect until such time as the UST no longer owns any shares of Senior Preferred. In addition, AIG shall promptly provide the UST such other information and notices as the UST may reasonably request from time to time.

Executive Compensation: As a condition to the closing of this investment, AIG shall be subject to the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the UST’s guidelines that carry out the provisions of such subsection for systemically significant failing institutions as set forth in Notice 2008-PSSFI. Accordingly, as a condition to the closing of this investment, AIG and its senior executive officers covered by the EESA (“SEOs”) shall modify or terminate all benefit plans, arrangements and agreements (including golden parachute agreements) to the extent necessary to be in compliance with,

	and following the closing and for so long as the UST holds any equity or debt securities of AIG issued under this agreement (the “Relevant Period”), AIG shall agree to be bound by the executive compensation and corporate governance requirements of Section 111(b) of the EESA and the guidelines set forth in Notice 2008-PSSFI. As an additional condition to the closing, AIG and its SEOs shall grant to the UST and the SEOs shall grant to AIG waivers releasing the UST, and, in the case of the SEOs release, AIG, from any claims that AIG and such SEOs may otherwise have as a result of any modification of the terms of any benefit plans, arrangements and agreements to eliminate any provisions that would not be in compliance with the executive compensation and corporate governance requirements of Section 111 of the EESA and the guidelines set forth in Notice 2008-PSSFI. In addition to Notice 2008-PSSFI, the following will apply: 1. AIG shall undertake during the Relevant Period to limit any golden parachute payments to its most senior employee group, who are currently referred to as Senior Partners (“Senior Partners”), (other than its SEOs) to the amounts permitted by the regulations relating to participants in the EESA Capital Purchase Program and the guidelines and Interim Final Rule (31 CFR Part 30) relating thereto as if they were SEOs (except that equity denominated awards settled solely in equity shall not be included in such limit), and AIG shall grant the UST a waiver releasing the UST, and shall use its best efforts to obtain waivers from the Senior Partners releasing the UST and AIG, from claims that AIG may have against the UST and that such Senior Partners may have against the UST or AIG as a result of such limits, and shall have obtained such waivers from AIG and its U.S.-based Senior Partners prior to and as an additional condition to the closing. 2. The annual bonus pools payable to Senior Partners in respect of each of 2008 and 2009 shall not exceed the average of the annual bonus pools paid to Senior Partners for 2006 and 2007 (in each case exclusive of AIG’s historic quarterly bonus program, the amount of which will not increase for any participant, and subject to appropriate adjustment for new hires and departures).
Risk Management Committee:	AIG shall establish, within 30 days of the issuance of the Senior Preferred, and maintain, at least until the UST ceases to own any shares of the Senior Preferred, the Warrant or any other equity or debt securities of AIG, a risk management committee of the AIG’s Board of Directors that will oversee the major risks involved in AIG’s business operations and review AIG’s actions to mitigate and manage those risks.
Miscellaneous:	The dividend rate as provided in “Dividend” above is subject to adjustment in the sole discretion of the Secretary of the Treasury in light of, inter alia, then-prevailing economic conditions and the financial condition of AIG, with the objective of protecting the U.S. taxpayer.

Summary of Warrant Terms

Warrant:	The UST will receive a warrant ("Warrant") to purchase a number of shares of common stock of AIG ("Common Stock") equal to 2% of the issued and outstanding shares of Common Stock on the date of investment. The initial exercise price for the Warrant shall be $2.50 per share of Common Stock (representing the par value of the Common Stock on the date of the investment), subject to customary anti-dilution adjustments; provided that the initial exercise price per share of Common Stock shall be adjusted to the par value per share of the Common Stock following the amendments to AIG's Restated Certificate of Incorporation contemplated by the terms of the convertible preferred stock. The Warrant shall be net share settled or, if consented to by AIG and the UST, on a full physical basis.
Term:	10 years
Exercisability:	Immediately exercisable, in whole or in part.
Transferability:	The Warrant will not be subject to any contractual restrictions on transfer other than such as are necessary to ensure compliance with U.S. federal and state securities laws. AIG will file a registration statement (which may be a shelf registration statement) covering the Warrant and the Common Stock underlying the Warrant as promptly as practicable, but in any event within 15 days after notification by the UST, and, if necessary, shall take all action required to cause such registration statement to be declared effective as soon as possible. During any period that an effective registration statement is not available for the resale by the UST of the Warrant or the Common Stock underlying the Warrant, AIG will also grant to the UST piggyback registration rights for the Warrant and the Common Stock underlying the Warrant. AIG will apply for the listing on the New York Stock Exchange of the Common Stock underlying the Warrant and will take such other steps as may be reasonably requested to facilitate the transfer of the Warrant and the underlying Common Stock.
Voting:	The UST will agree not to exercise voting power with respect to any shares of Common Stock issued to it upon exercise of the Warrant.
Substitution:	In the event AIG is no longer listed or traded on a national securities exchange the Warrant will be exchangeable (in whole or in part), at the option of the UST, for an economic interest (to be determined by the UST after consultation with AIG) of AIG classified as permanent equity under GAAP having a fair market value (as determined by the UST) equal to the portion of the Warrant so exchanged.

Exhibit 10.4

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT dated as of November 9, 2008 to the Credit Agreement dated as of September 22, 2008 (as amended from time to time, the "**Credit Agreement**") between AMERICAN INTERNATIONAL GROUP, INC., as Borrower (the "**Borrower**") and FEDERAL RESERVE BANK OF NEW YORK, as Lender (the "**Lender**").

PRELIMINARY STATEMENTS

(1) WHEREAS, Borrower intends to issue 2008 Preferred Stock (as defined below) having an aggregate liquidation preference of $40 billion.

(2) WHEREAS, Borrower has requested Lender to amend the Credit Agreement in connection with such issuance and to make certain other changes as described herein, and Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement to effect such changes as set forth below.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "this Agreement", "hereof", "hereunder", "herein" and "hereby" and each other similar reference in the Credit Agreement, and each reference in any other Loan Document to "the Credit Agreement", "thereof", "thereunder", "therein" or "thereby" or other similar reference to the Credit Agreement, shall, after the Amendment No. 2 Effective Date (as defined in Section 9 of this Amendment), refer to the Credit Agreement as amended hereby.

Section 2. *Amendments to Definitions.* Section 1.01 of the Credit Agreement is amended by adding or amending (as applicable) the following definitions to read in their entirety as follows:

"**2008 Preferred Stock**" shall mean the Series D Preferred Stock of the Borrower, par value $5.00 per share, issued to the United States Department of the Treasury.

“**2008 Warrants**” shall mean warrants issued by the Borrower to the United States Department of the Treasury concurrently with the issuance of the 2008 Preferred Stock.

“**Applicable Margin**” shall mean 3.00% per annum.

“**Maturity Date**” shall mean September 13, 2013.

“**Subject Issuer**” shall mean any Person that is a Subject Issuer as defined in the Guarantee and Pledge Agreement, excluding any Person whose Equity Interests are not (and are not required to be) subject to any Lien in favor of the Lender pursuant to the Guarantee and Pledge Agreement.”

Section 3. *Amendment to Available Commitment Fee.* Section 2.05(a) of the Credit Agreement is hereby amended by replacing the reference to “8.50%” therein with “0.75%”.

Section 4. *Commitment Reduction*. Section 2.10(h) of the Credit Agreement is hereby amended to read in its entirety as follows:

“(h) Simultaneously with any prepayment required by paragraph (b), (c) or (d) of this Section 2.10, the Commitment shall be automatically and permanently reduced (i) in the case of any prepayment from the Net Cash Proceeds of the issuance of 2008 Preferred Stock and the 2008 Warrants, to $60,000,000,000 and (ii) otherwise, in an amount equal to that portion of the Net Cash Proceeds required to be applied to prepay the Original Principal Amount of the Loans pursuant to such paragraphs.”

Section 5. *Amendments to Certain Covenants*. The proviso to Section 6.06(a) of the Credit Agreement is hereby amended by replacing “and” where it appears at the end of clause (i) thereof with a semicolon and adding the following new clause (iii) after clause (ii) thereof:

“and (iii) so long as no Default shall have occurred and be continuing or would result therefrom, the Borrower may make payments of cumulative compounding dividends on its 2008 Preferred Stock at a rate not to exceed 10% per annum”

Section 6. *Amendments to Exhibit D*. Exhibit D of the Credit Agreement is hereby amended to read in its entirety as set forth on Exhibit A hereto.

Section 7. *Certain Technical Amendments*. (a) Clause (E) of the proviso to Section 6.06(b) is hereby amended to read in its entirety as follows

“(E) clause (i) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured

Indebtedness or secured Swap Contracts permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness or such Swap Contracts, as the case may be".

(b) Schedule 8.01 of the Credit Agreement is hereby amended by replacing the entry requiring that notices be copied to Joyce M. Hansen with the following new entry:

Federal Reserve Bank of New York
33 Liberty Street New York, New York 10045
Attention: James R. Hennessy, Counsel and Vice President
Telecopy: (212) 720-7797
Telephone: (212) 720-5024
E-mail: james.hennessy@ny.frb.org

Section 8. *Representations of Borrower*. The Borrower represents and warrants on the Amendment No. 2 Effective Date that (i) the representations and warranties of Borrower contained in Article 3 of the Credit Agreement and by any Loan Party in any other Loan Document shall be true and correct on and as of the Amendment No. 2 Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date; and (ii) no Default or Event of Default shall exist on the Amendment No. 2 Effective Date after giving effect to this Amendment.

Section 9. *Conditions to Effectiveness*. This Amendment shall become effective on the date (the "**Amendment No. 2 Effective Date**") when, and only when, each of the following conditions shall have been satisfied to the satisfaction of Lender:

(a) Execution of Counterparts. Lender shall have received from Borrower a counterpart hereof signed by Borrower.

(b) Execution of Consent. Lender shall have received counterparts of a consent substantially in the form of Exhibit B to this Amendment, duly executed by each Guarantor.

(c) Expenses. Lender shall have received reimbursement for all costs and expenses (including fees, charges and disbursements of counsel to Lender) to the extent required by Section 8.05(a) of the Credit Agreement, including in connection with the preparation, negotiation and execution of this Amendment.

(d) Consummation of 2008 Preferred Stock Issuance. Borrower shall have consummated the issuance of 2008 Preferred Stock having a liquidation preference of not less than $40,000,000,000 on or prior to the Amendment No. 2 Effective Date.

Section 10. *Certain Consequences Of Effectiveness.* On and after the Amendment No. 2 Effective Date, the rights and obligations of the parties hereto shall be governed by the Credit Agreement as amended by this Amendment; *provided* that the rights and obligations of the parties to the Credit Agreement with respect to the period prior to the Amendment No. 2 Effective Date shall continue to be governed by the provisions of the Credit Agreement prior to giving effect to this Amendment. Each Loan Document, as specifically amended hereby, is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects. Without limiting the foregoing, the Security Documents and all of the Collateral do and shall continue to secure the payment of all obligations under the Loan Documents as amended hereby.

Section 11. *Governing Law*. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

Section 12. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. Delivery by telecopier of an executed counterpart of a signature page to this Amendment shall be effective as delivery of an original executed counterpart of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

AMERICAN INTERNATIONAL
GROUP, INC., as Borrower

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President and Secretary

FEDERAL RESERVE BANK OF
NEW YORK, as Lender

By: /s/ Steven J. Manzari
Name: Steven J. Manzari
Title: Senior Vice President

EXHIBIT A

Summary of Terms of Preferred Stock and Related Issues

Issuer	American International Group, Inc. (“AIG”).
Purchaser	AIG Credit Facility Trust, a new trust established for the benefit of the United States Treasury (“Trust”).
Securities	100,000 shares of Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (“Preferred Stock”).
Consideration	$500,000 plus the lending commitment of the Federal Reserve Bank of New York (“NY Fed”); AIG’s board will acknowledge the receipt of value at least equal to the aggregate par value of the shares of Preferred Stock in connection with their issuance.
Voting rights	Except where a class vote is required by law, the Preferred Stock will vote with the common stock on all matters submitted to AIG’s stockholders, and will be entitled to an aggregate number of votes equal to (i) the Initial Number of Shares (as defined below), as adjusted pursuant to the anti-dilution provisions, minus (ii) the votes, if any, attributable to shares of common stock previously issued on any partial conversion of the Preferred Stock; provided that the number of votes attributable to the Preferred Stock shall not exceed 77.9% of the aggregate number of votes of the Preferred Stock and the shares of common stock then outstanding.
Dividends	The Preferred Stock will be entitled to participate in any dividends paid on the common stock, and shall receive (i) the dividends attributable to the Initial Number of Shares, as adjusted pursuant to the anti-dilution provisions, minus (ii) the dividends, if any, paid with respect to shares of common stock previously issued on any partial conversion of the Preferred Stock; provided that the dividends attributable to the Preferred Stock shall not exceed 77.9% of the aggregate amount of dividends paid on the Preferred Stock and the shares of common stock then outstanding.
Conversion	Upon the effectiveness of the amendment to AIG’s restated certificate of incorporation described in clause (i) under “Stockholder vote,” the Preferred Stock will be convertible into a number of shares of common stock (the “Initial Number of Shares”) equal to the excess of (a) the product of 3.9751244 times the Number of Outstanding Shares over (b) 53,798,766 (the number of shares of common stock underlying the 2008 Warrants). The “Number of Outstanding Shares” means, as of any date, the number of shares of common stock outstanding as of the date of issuance of the Preferred Stock plus the number of shares of common stock, if any, issued on or prior to such date in settlement of AIG’s Equity Units.
Anti-Dilution Provisions	The Preferred Stock will have customary anti-dilution provisions.
Term	Perpetual.

Liquidation preference	$500,000 in aggregate.
Stockholder vote	AIG's board will call a meeting of stockholders as soon as practicable after the issuance of the Preferred Stock. At that meeting, the stockholders, with the common stockholders voting as a separate class in the case of the matters in clause (i), will vote on, among other things, (i) amendments to AIG's certificate of incorporation to (a) reduce the par value of AIG's common stock to $0.000001 per share and (b) increase the number of authorized shares of common stock to 19 billion and (ii) any other measures deemed by the NY Fed to be necessary for the conversion of the Preferred Stock or the operation of the Facility, including the pledging of collateral thereunder.
Equity issues	So long as the Trust's equity ownership, determined as the sum of its ownership of common stock and the number of shares of common stock underlying the Preferred Stock (whether or not the Preferred Stock is then convertible), shall equal or exceed 50% of the Initial Number of Shares (as adjusted pursuant to the anti-dilution provisions), AIG shall not issue any capital stock, or any or securities or instruments convertible or exchangeable into, or exercisable for, capital stock, without the written consent of the Trust other than (i)(x) issues of capital stock to satisfy any security or instrument existing on September 16, 2008 that is exercisable for, convertible into or exchangeable for common stock, (y) in respect of equity compensation awards issued in the ordinary course of business under AIG's Amended and Restated 2007 Stock Incentive Plan or AIG's Amended and Restated 2002 Stock Incentive Plan or (z) in respect of any tax-qualified plan approved in the ordinary course of business by the Board of Directors of AIG that meets the requirements of Section 423 of the Internal Revenue Code and (ii) subsequent to written notice from the Trust that AIG's corporate governance arrangements are satisfactory to the trustees (x) in respect of equity compensation awards issued under any equity compensation plan (including any material amendments thereto) approved by shareholders after September 16, 2008 in accordance with the shareholder approval requirements of the NYSE Listed Company Manual or (y) in any one year, up to 0.5% of the outstanding shares of common stock pursuant to any other employee benefit plan, employment contract or similar arrangement that is approved by the Compensation and Management Resources Committee of the Board of Directors of AIG.
Governance	AIG and its board will work in good faith with the trustees of the Trust to ensure corporate governance arrangements satisfactory to the trustees.
Registration rights	AIG will enter into a customary agreement providing for demand registration rights for the Preferred Stock and the underlying common stock, will apply for the listing on the NYSE of the common stock underlying the Preferred Stock, and will take such other steps as the NY Fed may reasonably request to facilitate the transfer of the Preferred Stock or common stock received on conversion of the Preferred Stock.
Regulation	AIG will take all actions necessary or expedient for obtaining any regulatory approvals, notices, waivers or consents related to the issuance and acquisition of the Preferred Stock and will assist the NY Fed in such matters.

NYSE	AIG will take all actions necessary or expedient for obtaining NYSE approval for the issuance and voting of the Preferred Stock, including actions required of the audit committee of the board of AIG to take advantage of the exemption from the NYSE's stockholder approval requirements set forth in Section 312.05 of the NYSE Listed Company Manual.
Takeover laws	AIG will take all actions necessary or expedient in order to exempt the acquisition and ownership of the Preferred Stock and any common stock issued upon conversion of the Preferred Stock from (i) the requirements of any applicable "moratorium", "control share", "fair price" or other anti-takeover laws and regulations of any jurisdiction, including Section 203 of the Delaware General Corporation Law, and (ii) any other applicable provision of the organizational documents of AIG or the comparable organizational documents of any subsidiary of AIG.

EXHIBIT B

Reference is made to Amendment No. 2 dated November [___], 2008 between American International Group, Inc., as Borrower (the "**Borrower**") and Federal Reserve Bank of New York, as Lender (the "**Lender**") (the "**Amendment**"). Unless otherwise specifically defined herein, each term used herein that is defined in the Amendment shall have the meaning assigned to such term in the Amendment.

Each of the undersigned hereby consents to the Amendment and hereby confirms and agrees that (a) notwithstanding the effectiveness of the Amendment, each Loan Document to which it is party is, and shall continue to be, in full force and effect and is hereby ratified and confirmed in all respects, except that, on and after the effectiveness of the Amendment, each reference in the Loan Documents to the "Credit Agreement", "thereof", "thereunder", "therein" or "thereby" or similar references to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by the Amendment and (b) the Loan Documents to which each of the undersigned is a party and all of the Collateral described therein do, and shall continue to, secure the payment of all obligations under the Loan Documents, as amended hereby.

[GUARANTORS]

By: ______________________________

Name:

Title:

Exhibit 12

American International Group, Inc.

Computation of Ratios of Earnings to Fixed Charges

(in millions, except ratios)	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Income (loss) before income taxes and minority interest	**$ (28,185)**	$ 4,879	**$ (48,205)**	$ 17,379
Less – Equity income of less than 50% owned persons	**(2)**	39	**15**	130
Add – Dividends from less than 50% owned persons	**1**	3	**22**	28
	(28,182)	4,843	**(48,198)**	17,277
Add – Fixed charges	**2,048**	3,153	**7,141**	8,267
Less – Capitalized interest	**6**	8	**21**	28
Income (loss) before income taxes, minority interest and fixed charges	**$ (26,140)**	$ 7,988	**$ (41,078)**	$ 25,516
Fixed charges:				
Interest costs	**$ 1,973**	$ 3,093	**$ 6,916**	$ 8,086
Rental expense(a)	**75**	60	**225**	181
Total fixed charges	**$ 2,048**	$ 3,153	**$ 7,141**	$ 8,267
Ratio of earnings to fixed charges	*(b)*	2.53	*(b)*	3.09
Secondary Ratio				
Interest credited to GIC and GIA policy and contract holders	**$ (551)**	$ (1,949)	**$ (3,071)**	$ (4,796)
Total fixed charges excluding interest credited to GIC and GIA policy and contract holders	**$ 1,497**	$ 1,204	**$ 4,070**	$ 3,471
Secondary ratio of earnings to fixed charges	*(b)*	5.02	*(b)*	5.97

(a) The proportion considered representative of the interest factor.

(b) Earnings were inadequate to cover total fixed charges by $28,188 million and $48,219 million for the three- and nine-month periods ended September 30, 2008. The coverage deficiency for total fixed charges excluding interest credited to GIC and GIA policy and contract holders was $27,637 million and $45,148 million for the three- and nine-month periods ended September 30, 2008.

The secondary ratio is disclosed for the convenience of fixed income investors and the rating agencies that serve them and is more comparable to the ratios disclosed by all issuers of fixed maturity securities. The secondary ratio removes interest credited to guaranteed investment contract (GIC) policyholders and guaranteed investment agreement (GIA) contract holders. Such interest expenses are also removed from income (loss) before income taxes and minority interest used in this calculation. GICs and GIAs are entered into by AIG's insurance subsidiaries, principally SunAmerica Life Insurance Company and AIG Financial Products Corp. and its subsidiaries, respectively. The proceeds from GICs and GIAs are invested in a diversified portfolio of securities, primarily investment grade bonds. The assets acquired yield rates greater than the rates on the related policyholders obligation or agreement, with the intent of earning operating income from the spread.

CERTIFICATIONS

I, Edward M. Liddy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Edward M. Liddy
Edward M. Liddy
Chairman and Chief Executive Officer

Date: November 10, 2008

CERTIFICATIONS

I, David L. Herzog, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David L. Herzog

David L. Herzog
Executive Vice President and
Chief Financial Officer

Date: November 10, 2008

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of American International Group, Inc. (the “Company”) for the quarter ended September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Edward M. Liddy, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Edward M. Liddy
Edward M. Liddy
Chairman and Chief Executive Officer

Date: November 10, 2008

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended September 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Herzog, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David L. Herzog

David L. Herzog
Executive Vice President and Chief Financial Officer

Date: November 10, 2008

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.