

AMERICAN INTERNATIONAL GROUP INC  
Form 10-K  
February 26, 2010

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

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**Form 10-K**

(Mark One)

- ☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2009**
- or
- ☐ **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)

<b>Delaware</b>	<b>13-2592361</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<b>70 Pine Street, New York, New York</b>	<b>10270</b>
(Address of principal executive offices)	(Zip Code)
<b>Registrant's telephone number, including area code (212) 770-7000</b>	

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**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, Par Value \$2.50 Per Share	New York Stock Exchange
5.75% Series A-2 Junior Subordinated Debentures	New York Stock Exchange
4.875% Series A-3 Junior Subordinated Debentures	New York Stock Exchange
6.45% Series A-4 Junior Subordinated Debentures	New York Stock Exchange
7.70% Series A-5 Junior Subordinated Debentures	New York Stock Exchange
Corporate Units (composed of stock purchase contracts and junior subordinated debentures)	New York Stock Exchange
NIKKEI 225® Index Market Index Target-Term Securities® due January 5, 2011	NYSE Arca

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☐

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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 ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a  
smaller reporting  
company)

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant computed by reference to the price at which the common equity was last sold of \$23.20 as of June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter), was approximately \$2,794,000,000.

As of January 29, 2010, there were outstanding 134,926,293 shares of Common Stock, \$2.50 par value per share, of the registrant.

### DOCUMENTS INCORPORATED BY REFERENCE

#### Document of the Registrant

Portions of the registrant's definitive proxy statement for the 2010  
Annual Meeting of Shareholders

#### Form 10-K Reference Locations

Part III, Items 10, 11, 12, 13 and 14

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American International Group, Inc., and Subsidiaries

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### **Part I**

#### **Item 1. Business**

American International Group, Inc. (AIG), a Delaware corporation, is a holding company which, through its subsidiaries, is engaged primarily in a broad range of insurance and insurance-related activities in the United States and abroad.

Since September 2008, AIG has been working to protect and enhance the value of its key businesses, execute an orderly asset disposition plan, and position itself for the future. AIG has entered into several important transactions and relationships with the Federal Reserve Bank of New York (FRBNY), the AIG Credit Facility Trust (together with its trustees, acting in their capacity as trustees, the Trust) and the United States Department of the Treasury (the Department of the Treasury). As a result of these arrangements, AIG is controlled by the Trust, which was established for the sole benefit of the United States Treasury.

AIG's four reportable segments are as follows:

General Insurance;

Domestic Life Insurance & Retirement Services;

Foreign Life Insurance & Retirement Services; and

Financial Services.

The principal business units in each of AIG's reportable segments at year-end 2009 are shown below. For information on AIG's reportable segments, including geographic areas of operation, and changes made in 2009, see Note 4 to the Consolidated Financial Statements.

#### **General Insurance**

#### **Domestic Life Insurance & Retirement Services**

American Home Assurance Company (American Home)

American General Life Insurance Company (American General)

National Union Fire Insurance Company of Pittsburgh, Pa. (National Union)

American General Life and Accident Insurance Company (AGLA)

New Hampshire Insurance Company (New Hampshire)

The United States Life Insurance Company in the City of New York (USLIFE)

Lexington Insurance Company (Lexington)

The Variable Annuity Life Insurance Company (VALIC)

Chartis Overseas, Ltd.

Western National Life Insurance Company (Western National)

AIU Insurance Company (AIUI)

SunAmerica Annuity and Life Assurance Company (SunAmerica Annuity)

American International Reinsurance Company Limited (AIRCO)

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### **Foreign Life Insurance & Retirement Services**

American Life Insurance Company (ALICO)

AIG Star Life Insurance Co., Ltd. (AIG Star Life)

AIG Edison Life Insurance Company (AIG Edison Life)

American International Assurance Company, Limited, together with  
American International Assurance Company (Bermuda) Limited  
(AIA)

The Philippine American Life and General Insurance Company  
(Philamlife)

### **Financial Services**

International Lease Finance Corporation (ILFC)

AIG Financial Products Corp. and AIG Trading Group Inc. and their  
respective subsidiaries (AIGFP)

American General Finance, Inc. (AGF)

AIG Consumer Finance Group, Inc. (AIGCFG)

AIG Credit Corp. (A.I. Credit)

**Throughout this Annual Report on Form 10-K, AIG presents its operations in the way it believes will be most meaningful, as well as most transparent. Certain of the measurements used by AIG management are "non-GAAP financial measures" under SEC rules and regulations. Underwriting profit (loss) is utilized to report results for AIG's General Insurance operations. Pre-tax income (loss) before net realized capital gains (losses) is utilized to report results for AIG's life insurance and retirement services operations. For an explanation of why AIG management considers these "non-GAAP measures" useful to investors, see Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Following is additional information about AIG's operations:

### **General Insurance Operations**

AIG's General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance both domestically and abroad and comprise the Commercial Insurance and the Foreign General Insurance operating segments. In July 2009, AIG's General Insurance subsidiaries were rebranded as Chartis (Commercial Insurance operates as Chartis U.S. and Foreign General Insurance operates as Chartis International). Chartis Private Client Group (Private Client Group) is part of Chartis U.S.

AIG is diversified both in terms of classes of business and geographic locations. In General Insurance, general and auto liability business is the largest class of business written and represented approximately 15 percent of net premiums written for the year ended December 31, 2009. During 2009, 8 percent, 6 percent and 6 percent of the direct General Insurance premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded) were written in the states of California, New York and Texas, respectively, and 11 percent and 9 percent were written in Japan and the United Kingdom, respectively. No other state or foreign country accounted for more than five percent of such premiums.

The majority of AIG's General Insurance business is in the casualty classes, which tend to involve longer periods of time for the reporting and settling of claims. This may increase the risk and uncertainty with respect to AIG's loss reserve development.

### **Commercial Insurance**

Commercial Insurance's business in the United States and Canada is conducted through American Home, National Union, Lexington and certain other General Insurance company subsidiaries of AIG.

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

In addition to writing substantially all classes of business insurance, including large commercial or industrial property insurance, excess liability, inland marine, environmental, workers' compensation and excess and umbrella



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coverages, Chartis U.S. offers many specialized forms of insurance such as aviation, accident and health, equipment breakdown, directors and officers liability (D&O), difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and omissions coverages. Also included in Chartis U.S. are the operations of Commercial Casualty, which provides insurance and risk management programs for large corporate customers and is a leading provider of customized structured insurance products, and Chartis Environmental, which focuses on providing specialty products to clients with environmental exposures. Lexington writes surplus lines for risks on which conventional insurance companies do not readily provide insurance coverage, either because of complexity or because the coverage does not lend itself to conventional contracts. The Chartis Worldsource Division introduces and coordinates AIG's products and services to U.S.-based multinational clients and foreign corporations doing business in the U.S. Private Client Group provides a broad range of coverages for high net worth individuals.

Foreign General Insurance

Chartis International writes both commercial and consumer lines of insurance through a network of agencies, branches and foreign-based insurance subsidiaries. Chartis International uses various marketing methods and multiple distribution channels to write both commercial and consumer lines of insurance with certain refinements for local laws, customs and needs. Chartis International operates in Asia, the Pacific Rim, Europe, the U.K., Africa, the Middle East and Latin America.

Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development

The reserve for net losses and loss expenses represents the accumulation of estimates for reported losses (case basis reserves) and provisions for losses incurred but not reported (IBNR), both reduced by applicable reinsurance recoverable and the discount for future investment income, where permitted. Net losses and loss expenses are charged to income as incurred.

The Liability for unpaid claims and claims adjustment expense (loss reserves) established with respect to foreign business is set and monitored in terms of the currency in which payment is expected to be made. Therefore, no assumption is included for changes in currency rates. See also Note 1(v) to the Consolidated Financial Statements.

Management reviews the adequacy of established loss reserves utilizing a number of analytical reserve development techniques. Through the use of these techniques, management is able to monitor the adequacy of AIG's established reserves and determine appropriate assumptions for inflation. Also, analysis of emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence, allows management to determine any required adjustments.

The "Analysis of Consolidated Losses and Loss Expense Reserve Development" table presents the development of net losses and loss expense reserves for calendar years 1999 through 2009. Immediately following this table is a second table that presents all data on a basis that excludes asbestos and environmental net losses and loss expense reserve development. The opening reserves held are shown at the top of the table for each year-end date. The amount of loss reserve discount included in the opening reserve at each date is shown immediately below the reserves held for each year. The undiscounted reserve at each date is thus the sum of the discount and the reserve held.

The upper half of the table presents the cumulative amounts paid during successive years related to the undiscounted opening loss reserves. For example, in the table that excludes asbestos and environmental losses, with respect to the net losses and loss expense reserve of \$28.65 billion at December 31, 2002, by the end of 2009 (seven years later) \$39.64 billion had actually been paid in settlement of these net loss reserves. In addition, as reflected in the lower section of the table, the original undiscounted reserve of \$30.15 billion was reestimated to be \$50.79 billion at December 31, 2009. This increase from the original estimate generally results from a combination of a number of factors, including claims being settled for larger amounts than originally estimated. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claim frequency and severity patterns. The redundancy (deficiency) depicted in the table, for any particular calendar year, presents the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective column heading. For example, the deficiency of \$2.62 billion at December 31, 2009 related to December 31, 2008 net losses and loss expense reserves of \$73.64 billion represents the cumulative amount by which reserves in 2008 and prior years have developed unfavorably during 2009.

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The bottom of each table below presents the remaining undiscounted and discounted net loss reserve for each year. For example, in the table that excludes asbestos and environmental losses, for the 2001 year-end, the remaining undiscounted reserves held at December 31, 2009 are \$9.71 billion, with a corresponding discounted net reserve of \$8.98 billion.

### Analysis of Consolidated Losses and Loss Expense Reserve Development

The following table presents for each calendar year the losses and loss expense reserves and the development thereof including those with respect to asbestos and environmental claims. See also Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results General Insurance Operations Liability for unpaid claims and claims adjustment expense.\*

(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Reserves Held	\$ 25,636	\$ 25,684	\$ 26,005	\$ 29,347	\$ 36,228	\$ 47,253	\$ 57,476	\$ 62,630	\$ 69,288	\$ 72,455	\$ 67,899
Discount (in Reserves Held)	1,075	1,287	1,423	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655
Net Reserves Held (Undiscounted)	26,711	26,971	27,428	30,846	37,744	48,806	59,586	64,894	71,717	75,029	70,554
Paid (Cumulative) as of:											
One year later	8,266	9,709	11,007	10,775	12,163	14,910	15,326	14,862	16,531	24,267	
Two years later	14,640	17,149	18,091	18,589	21,773	24,377	25,152	24,388	31,791		
Three years later	19,901	21,930	23,881	25,513	28,763	31,296	32,295	34,647			
Four years later	23,074	26,090	28,717	30,757	33,825	36,804	40,380				
Five years later	25,829	29,473	32,685	34,627	38,087	43,162					
Six years later	28,165	32,421	35,656	37,778	42,924						
Seven years later	30,336	34,660	38,116	41,493							
Eight years later	31,956	36,497	41,055								
Nine years later	33,489	38,943									
Ten years later	35,359										

(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Reserves Held (Undiscounted)	\$ 26,711	\$ 26,971	\$ 27,428	\$ 30,846	\$ 37,744	\$ 48,806	\$ 59,586	\$ 64,894	\$ 71,717	\$ 75,029	\$ 70,554



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Undiscounted  
Liability as of:

One year later	26,358	26,979	31,112	32,913	40,931	53,486	59,533	64,238	71,836	77,800
Two years later	27,023	30,696	33,363	37,583	49,463	55,009	60,126	64,764	74,318	
Three years later	29,994	32,732	37,964	46,179	51,497	56,047	61,242	67,303		
Four years later	31,192	36,210	45,203	48,427	52,964	57,618	63,872			
Five years later	33,910	41,699	47,078	49,855	54,870	60,231				
Six years later	38,087	43,543	48,273	51,560	57,300					
Seven years later	39,597	44,475	49,803	53,917						
Eight years later	40,217	45,767	52,034							
Nine years later	41,168	47,682								
Ten years later	42,727									
Net Redundancy / (Deficiency)	(16,016)	(20,711)	(24,606)	(23,071)	(19,556)	(11,425)	(4,286)	(2,409)	(2,601)	(2,771)
Remaining Reserves (Undiscounted)	7,368	8,739	10,979	12,424	14,376	17,069	23,492	32,656	42,527	53,533
Remaining Discount	511	609	723	856	988	1,124	1,309	1,552	1,893	2,261
Remaining Reserves	6,857	8,130	10,256	11,568	13,388	15,945	22,183	31,104	40,634	51,272

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The following table presents the gross liability (before discount), reinsurance recoverable and net liability recorded at each year end and the reestimation of these amounts as of December 31, 2009:

(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Liability, End of Year	\$ 37,278	\$ 39,222	\$ 42,629	\$ 48,173	\$ 53,388	\$ 63,430	\$ 79,279	\$ 82,263	\$ 87,929	\$ 91,832	\$ 88,041
Reinsurance Recoverable, End of Year	10,567	12,251	15,201	17,327	15,644	14,624	19,693	17,369	16,212	16,803	17,487
Net Liability, End of Year	26,711	26,971	27,428	30,846	37,744	48,806	59,586	64,894	71,717	75,029	70,554
Reestimated Gross Liability	64,160	71,146	76,143	77,873	78,829	79,883	86,444	86,462	92,086	94,932	
Reestimated Reinsurance Recoverable	21,433	23,464	24,109	23,956	21,529	19,652	22,572	19,159	17,768	17,132	
Reestimated Net Liability	42,727	47,682	52,034	53,917	57,300	60,231	63,872	67,303	74,318	77,800	
Cumulative Gross Redundancy/(Deficiency)	(26,882)	(31,924)	(33,514)	(29,700)	(25,441)	(16,453)	(7,165)	(4,199)	(4,157)	(3,100)	

\*

During 2009, Transatlantic Holdings, Inc. (Transatlantic) was deconsolidated and 21st Century Insurance Group and Agency Auto Division (excluding AIG Private Client Group) (21st Century) and HSB Group, Inc. (HSB) were sold. Immediately preceding these sales, the loss and loss expense reserves for these entities totaled \$9.7 billion. As a result of the sales and deconsolidation, these obligations ceased being the responsibility of AIG. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of \$9.7 billion and as a \$8.6 billion increase in paid losses for the years 1999 through 2008 to reflect no impact on incurred losses for these periods.

## Analysis of Consolidated Losses and Loss Expense Reserve Development Excluding Asbestos and Environmental Losses and Loss Expense Reserve Development

The following table presents for each calendar year the losses and loss expense reserves and the development thereof excluding those with respect to asbestos and environmental claims. See also Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results General Insurance Operations Liability for unpaid claims and claims adjustment expense.\*

(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Reserves Held	\$ 24,745	\$ 24,829	\$ 25,286	\$ 28,651	\$ 35,559	\$ 45,742	\$ 55,226	\$ 60,451	\$ 67,597	\$ 71,062	\$ 66,588
Discount (in Reserves Held)	1,075	1,287	1,423	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655
Net Reserves Held (Undiscounted)	25,820	26,116	26,709	30,150	37,075	47,295	57,336	62,715	70,026	73,636	69,243
Paid (Cumulative) as of:											
One year later	8,195	9,515	10,861	10,632	11,999	14,718	15,047	14,356	16,183	24,028	
Two years later	14,376	16,808	17,801	18,283	21,419	23,906	24,367	23,535	31,204		
Three years later	19,490	21,447	23,430	25,021	28,129	30,320	31,163	33,555			

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Four years later	22,521	25,445	28,080	29,987	32,686	35,481	39,009
Five years later	25,116	28,643	31,771	33,353	36,601	41,600	
Six years later	27,266	31,315	34,238	36,159	41,198		
Seven years later	29,162	33,051	36,353	39,637			
Eight years later	30,279	34,543	39,055				
Nine years later	31,469	36,752					
Ten years later	33,101						

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(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net Reserves Held											
(Undiscounted) \$	25,820	\$ 26,116	\$ 26,709	\$ 30,150	\$ 37,075	\$ 47,295	\$ 57,336	\$ 62,715	\$ 70,026	\$ 73,636	\$ 69,243
Undiscounted Liability as of:											
One year later	25,437	26,071	30,274	32,129	39,261	51,048	57,077	62,043	70,096	76,251	
Two years later	26,053	29,670	32,438	35,803	46,865	52,364	57,653	62,521	72,423		
Three years later	28,902	31,619	36,043	43,467	48,691	53,385	58,721	64,904			
Four years later	30,014	34,102	42,348	45,510	50,140	54,908	61,195				
Five years later	31,738	38,655	44,018	46,925	51,997	57,365					
Six years later	34,978	40,294	45,201	48,584	54,272						
Seven years later	36,283	41,213	46,685	50,786							
Eight years later	36,889	42,459	48,761								
Nine years later	37,795	44,219									
Ten years later	39,199										
Net Redundancy/(Deficiency)	(1,379)	(18,103)	(22,052)	(20,636)	(17,197)	(10,070)	(3,859)	(2,189)	(2,397)	(2,615)	
Remaining Reserves (Undiscounted)	6,098	7,467	9,706	11,149	13,074	15,765	22,186	31,349	41,219	52,223	
Remaining Discount	511	609	723	856	988	1,124	1,309	1,552	1,893	2,261	
Remaining Reserves	5,587	6,858	8,983	10,293	12,086	14,641	20,877	29,797	39,326	49,962	

The following table presents the gross liability (before discount), reinsurance recoverable and net liability recorded at each year end and the reestimation of these amounts as of December 31, 2009:

(in millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Liability, End of Year	\$ 34,666	\$ 36,777	\$ 40,400	\$ 46,036	\$ 51,363	\$ 59,790	\$ 73,808	\$ 77,111	\$ 83,551	\$ 87,973	\$ 84,467
Reinsurance Recoverable, End of Year	8,846	10,661	13,691	15,886	14,288	12,495	16,472	14,396	13,525	14,337	15,224
Net Liability, End of Year	25,820	26,116	26,709	30,150	37,075	47,295	57,336	62,715	70,026	73,636	69,243
Reestimated Gross Liability	55,041	62,549	68,075	70,148	71,492	72,836	79,818	80,494	86,995	90,589	
Reestimated Reinsurance Recoverable	15,842	18,330	19,314	19,362	17,220	15,471	18,623	15,590	14,572	14,338	

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Reestimated Net Liability	39,199	44,219	48,761	50,786	54,272	57,365	61,195	64,904	72,423	76,251
Cumulative Gross										
Redundancy/(Deficiency)	(20,375)	(25,772)	(27,675)	(24,112)	(20,129)	(13,046)	(6,010)	(3,383)	(3,444)	(2,616)

\*

*During 2009, Transatlantic was deconsolidated and 21st Century and HSB were sold. Immediately preceding these sales, the loss and loss expense reserves for these entities totaled \$9.6 billion. As a result of the sales and deconsolidation, these obligations ceased being the responsibility of AIG. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of \$9.6 billion and as a \$8.6 billion increase in paid losses for the years 1999 through 2008 to reflect no impact on incurred losses for these periods.*

The Liability for unpaid claims and claims adjustment expense as reported in AIG's Consolidated Balance Sheet at December 31, 2009 differs from the total reserve reported in the Annual Statements filed with state insurance departments and, where appropriate, with foreign regulatory authorities. The differences at December 31, 2009 relate primarily to reserves for certain foreign operations not required to be reported in the United States for statutory reporting purposes. Further, statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable.

The reserve for gross losses and loss expenses is prior to reinsurance and represents the accumulation for reported losses and IBNR. Management reviews the adequacy of established gross loss reserves in the manner previously described for net loss reserves.

For further discussion regarding net reserves for losses and loss expenses, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results General Insurance Operations Liability for unpaid claims and claims adjustment expense.

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American International Group, Inc., and Subsidiaries

**Domestic Life Insurance & Retirement Services Operations**

AIG's Domestic Life Insurance & Retirement Services segment, rebranded as SunAmerica Financial Group in December 2009, is comprised of several life insurance and retirement services businesses that market their products and services under the brands of American General, AGLA, VALIC, Western National, SunAmerica Retirement Markets, SunAmerica Mutual Funds, SunAmerica Affordable Housing Partners, FSC Securities, Royal Alliance and SagePoint Financial. The businesses offer a comprehensive suite of life insurance, retirement savings products and guaranteed income solutions through an established multi-channel distribution network that includes banks, national, regional and independent broker-dealers, career financial advisors, wholesale life brokers, insurance agents and a direct-to-consumer platform.

AIG's Domestic Life Insurance businesses offer a broad range of protection products, including individual term and universal life insurance and group life and health products. In addition, Domestic Life Insurance offers a variety of payout annuities, which include single premium immediate annuities, structured settlements and terminal funding annuities.

Domestic Retirement Services businesses offer group retirement products and individual fixed and variable annuities. Certain previously acquired closed blocks and other fixed and variable annuity blocks that have been discontinued are reported as "runoff" annuities. Domestic Retirement Services also maintains a runoff block of Guaranteed Investment Contracts (GICs) that were written in (or issued to) the institutional market place prior to 2006.

Results for certain brokerage service, mutual fund, GIC and other asset management activities previously reported in the Asset Management segment are now included in Domestic Life Insurance & Retirement Services.

**Foreign Life Insurance & Retirement Services Operations**

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 principal Foreign Life Insurance & Retirement Services operations include ALICO, AIG Star Life, AIG Edison Life, AIA and Philamlife, which is now an AIA subsidiary. ALICO is incorporated in Delaware and all of its business is written outside the United States. ALICO has operations either directly or through subsidiaries in Europe, including the U.K., Latin America, the Caribbean, the Middle East, and Japan. AIA operates primarily in China (including Hong Kong), Singapore, Malaysia, Thailand, Korea, Australia, New Zealand, Vietnam, Indonesia and India. The operations in India are conducted through a joint venture, Tata AIG Life Insurance Company Limited. Philamlife is the largest life insurer in the Philippines. AIG Star Life and AIG Edison Life operate in Japan.

On October 12, 2009, AIG entered into an agreement to sell its 97.57 percent share of Nan Shan Life Insurance Company, Ltd. (Nan Shan), for approximately \$2.15 billion. As a result of this transaction, Nan Shan qualified as a discontinued operation and met the criteria for "held-for-sale" accounting in the fourth quarter of 2009. See Note 2 to the Consolidated Financial Statements for further discussion.

**Reinsurance Operations**

Chartis subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account and securing reinsurance on that portion of the risk in excess of the limit which they wish to retain. This operating policy differs from that of many insurance companies that will underwrite only up to their net retention limit, thereby requiring the broker or agent to secure commitments from other underwriters for the remainder of the gross risk amount.

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### American International Group, Inc., and Subsidiaries

Various AIG classes of business, including Commercial Insurance, AIU and AIG Risk Finance, as well as certain life insurance subsidiaries, use AIRCO as a reinsurer for certain of their businesses. In Bermuda, AIRCO discounts reserves attributable to certain classes of general insurance business assumed from other AIG subsidiaries.

For a further discussion of reinsurance, see Item 1A. Risk Factors Reinsurance; Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Insurance Risk Management Reinsurance.

### Insurance Investment Operations

A significant portion of AIG's General Insurance and Domestic and Foreign Life Insurance & Retirement Services revenues are derived from AIG's insurance investment operations.

The following table summarizes the investment results of AIG's insurance operations, excluding the results of discontinued operations:

Years Ended December 31, (in millions)	Annual Average Investments <sup>(a)</sup>	Net Investment Income	Pre-tax Return on Average Investments <sup>(b)</sup>
General Insurance:			
2009	\$ 89,236	\$ 3,295	3.7%
2008	92,313	2,606	2.8
2007	96,207	5,348	5.6
Domestic Life Insurance & Retirement Services:			
2009	\$ 148,202	\$ 9,553	6.4%
2008	196,515	9,134	4.6
2007	248,720	13,582	5.5
Foreign Life Insurance & Retirement Services:			
2009	\$ 182,183	\$ 11,502	6.3%
2008	180,833	157	0.1
2007	182,216	10,184	5.6

(a)

Includes real estate investments and collateral assets invested under the securities lending program.

(b)

Net investment income divided by the annual average investments.

AIG's worldwide insurance investment policy places primary emphasis on investments in government and fixed income securities in all of its portfolios and, to a lesser extent, investments in high-yield bonds, common stocks, real estate, hedge funds and other alternative investments, in order to enhance returns on policyholders' funds and generate net investment income. The ability to implement this policy is somewhat limited in certain territories as there may be a lack of attractive long-term investment opportunities or investment restrictions may be imposed by the local regulatory authorities.

### Financial Services Operations

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AIG's Financial Services subsidiaries engage in diversified activities including aircraft leasing, capital markets, consumer finance and insurance premium finance. Together, the Aircraft Leasing, Capital Markets and Consumer Finance operations generate the majority of the revenues produced by the Financial Services operations. A.I. Credit also contributes to Financial Services results principally by providing insurance premium financing for both AIG's policyholders and those of other insurers.

### Aircraft Leasing

AIG's Aircraft Leasing operations are 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 jet aircraft for ILFC's own account, and remarketing and fleet management services for airlines and financial institutions.

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Capital Markets

Capital Markets is comprised of the operations of AIGFP, which engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and interest rates. AIGFP also invests in a diversified portfolio of securities and principal investments and engages in borrowing activities that involve issuing standard and structured notes and other securities and entering into guaranteed investment agreements (GIAs). Due to the extreme market conditions experienced in 2008, the downgrades of AIG's credit ratings by the rating agencies, as well as AIG's intent to refocus on its core businesses, beginning in late 2008 and continuing through 2009 AIGFP has been unwinding its businesses and portfolios. See Management's Discussion and Analysis of Financial Condition and Results of Operations 2010 Business Outlook Financial Services.

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 real estate loans, secured and unsecured non-real estate loans and retail sales finance receivables.

AIG's foreign consumer finance operations are principally conducted through AIGCFG. AIGCFG operates primarily in emerging and developing markets. During 2009, AIG divested most of the AIGCFG operations. As of December 31, 2009, AIGCFG had operations in Argentina, Taiwan, India, Colombia and Poland. The operations in Poland, at December 31, 2009, were under contract for sale and met the criteria for held for sale accounting in 2009.

**Other Operations**

AIG's Other operations includes results from Parent & Other operations, after allocations to AIG's business segments, results from noncore businesses and gains and losses on sales of divested businesses.

Parent & Other

AIG's Parent & Other operations consists primarily of interest expense, restructuring costs, expenses of corporate staff not attributable to specific reportable segments, expenses related to efforts to improve internal controls, corporate initiatives, certain compensation plan expenses, corporate level net realized capital gains and losses, certain litigation related charges and net gains and losses on sale of divested businesses.

Noncore Businesses

Noncore businesses include results of certain businesses that have been divested or are being wound down or repositioned.

**Noncore Insurance Businesses**

Beginning in 2009, in order to better align financial reporting with the manner in which AIG's chief operating decision makers review AIG's businesses to make decisions about resources to be allocated and to assess performance, the results for United Guaranty Corporation (UGC), Transatlantic, 21st Century and HSB are included in AIG's Other operations category. These amounts were previously reported as part of General Insurance operations. Prior period amounts have been revised to conform to the current presentation. As a result of the current year dispositions of 21st Century and HSB, and the deconsolidation of Transatlantic, only UGC is still reporting ongoing results of operations. See Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity AIG's Strategy for Stabilization and Repayment of its Obligations as They Come Due Asset Disposition Plan Sales of Businesses and Specific Asset Dispositions for further discussion.

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**Mortgage Guaranty**

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 first-lien mortgages for the purchase or refinance of one- to four-family residences.

During 2008, UGC tightened underwriting guidelines and increased premium rates for its first-lien business, ceased insuring second-lien business as of September 30, 2008 and during the fourth quarter of 2008 ceased insuring new private student loan business and suspended insuring new business throughout its European operations. All of these actions were in response to the worsening conditions in the global housing markets and resulted in a significant decline in new business written during the second half of 2008 through 2009.

**Transatlantic**

On June 10, 2009, AIG closed the previously announced secondary public offering of 29.9 million shares of Transatlantic common stock owned directly and indirectly by AIG for aggregate gross proceeds of \$1.1 billion. As of the close of the offering, AIG indirectly retained 13.9 percent of the Transatlantic common stock issued and outstanding. As of December 31, 2009, after confirmation from the New York Insurance Department that AIG is not considered to control Transatlantic, AIG no longer considers Transatlantic to be a related party.

**Noncore Asset Management Operations**

With the announced sale of AIG's investment advisory and third party Institutional Asset Management business (excluding the Global Real Estate investment management business), AIG will no longer benefit from the management fee and carried interest cash flows from these businesses, but the sale will reduce operating costs related to AIG's asset management activities. Asset Management is no longer considered a reportable segment, and the results for these Asset Management operations described below have been presented as a Noncore business in AIG's Other operations category. Brokerage service commissions, other asset management fees, and investment income from GICs previously reported in the Asset Management segment are now included in the Domestic Life Insurance & Retirement Services segment. Results for prior periods have been revised accordingly.

**Matched Investment Program**

AIG's Matched Investment Program (MIP) is a spread-based investment operation which invests primarily in fixed maturity securities (corporate and structured), loans and, to a lesser extent, single name credit default swaps. Due to the extreme market conditions experienced in 2008 and the downgrades of AIG's credit ratings, the MIP is currently in run-off. No additional debt issuances are expected for the MIP for the foreseeable future.

**Institutional Asset Management Business**

AIG's Institutional Asset Management business, conducted through AIG Global Asset Management Holdings Corp. and its subsidiaries and affiliated companies (collectively, AIG Investments), provides an array of investment products and services globally to institutional investors, pension funds, AIG subsidiaries, AIG affiliates and high net worth investors. These products include traditional equity and fixed maturity securities, and a wide range of real estate and alternative asset classes. Services include investment advisory and sub-advisory services, investment monitoring and transaction structuring. Within the equity and fixed maturity asset classes, AIG Investments offers various forms of structured investments. 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 Investment Corp. (AIG Global Real Estate) provides a wide range of real estate investment, development and management services for AIG subsidiaries, as well as for third-party institutional investors, pension funds and high net worth investors. AIG Global Real Estate also maintains a proprietary real estate investment portfolio through various joint venture platforms.

On September 5, 2009, AIG entered into an agreement to sell its investment advisory and third party Institutional Asset Management businesses. This sale will exclude those asset management businesses providing traditional fixed

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income asset and liability management for AIG's insurance company subsidiaries and the AIG Global Real Estate investment management business, as well as proprietary real estate and private equity investments. AIG expects to continue relationships with the divested businesses for other investment management services used by its insurance company subsidiaries. Upon completion of the sale, AIG will no longer benefit from the management fee and carried interest cash flow from these businesses, but the sale will reduce operating costs related to AIG's asset management activities.

For additional information regarding the business of AIG on a consolidated basis, the contributions made to AIG's consolidated revenues and pre-tax income and the assets held by General Insurance, Domestic Life Insurance & Retirement Services, Foreign Life Insurance & Retirement Services, Financial Services and the Other operations category, see Selected Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 4 to the Consolidated Financial Statements.

**Locations of Certain Assets**

As of December 31, 2009, approximately 44 percent of the consolidated assets of AIG were located in foreign countries (other than Canada), including \$6.9 billion of cash and securities on deposit with foreign regulatory authorities. Foreign operations and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of such assets. Certain of the countries in which AIG's business is conducted have currency restrictions which generally cause a delay in a company's ability to repatriate assets and profits. See also Item 1A. Risk Factors Foreign Operations and Notes 1 and 4 to the Consolidated Financial Statements.

**Regulation**

AIG's operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, investment advisory, banking and thrift regulators in the United States and abroad. AIG's operations have become more diverse and consumer-oriented, increasing the scope of regulatory supervision and the possibility of intervention. In light of AIG's liquidity problems beginning in the third quarter of 2008, AIG and its regulated subsidiaries have been subject to intense review and supervision around the world. Regulators have taken significant steps to protect the businesses of the entities they regulate. These steps have included:

restricting or prohibiting the payment of dividends to AIG parent and its subsidiaries;

restricting or prohibiting other payments to AIG parent and its subsidiaries;

requesting additional capital contributions from AIG parent;

requesting that intercompany reinsurance reserves be covered by assets locally;

restricting the business in which the subsidiaries may engage;

requiring pre-approval of all proposed transactions between the regulated subsidiaries and AIG parent or with any affiliate;  
and

requiring more frequent reporting, including with respect to capital and liquidity positions.

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These and other actions have made it challenging for AIG to continue to engage in business in the ordinary course. AIG does not expect these conditions to change significantly in the foreseeable future.

In 1999, AIG became a unitary thrift holding company within the meaning of the Home Owners' Loan Act (HOLA) when the Office of Thrift Supervision (OTS) granted AIG approval to organize AIG Federal Savings Bank. AIG is subject to OTS regulation, examination, supervision and reporting requirements. In addition, the OTS has enforcement authority over AIG and its subsidiaries. Among other things, this permits the OTS to restrict or prohibit

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activities that are determined to be a serious risk to the financial safety, soundness or stability of AIG's subsidiary savings association, AIG Federal Savings Bank.

Under prior law, a unitary savings and loan holding company, such as AIG, was not restricted as to the types of business in which it could engage, provided that its savings association subsidiary continued to be a qualified thrift lender. The Gramm-Leach-Bliley Act of 1999 (GLBA) provides that no company may acquire control of an OTS regulated institution after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies. The GLBA, however, grandfathered the unrestricted authority for activities with respect to a unitary savings and loan holding company existing prior to May 4, 1999, so long as its savings association subsidiary continues to be a qualified thrift lender under the HOLA. As a unitary savings and loan holding company whose application was pending as of May 4, 1999, AIG is grandfathered under the GLBA and generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that AIG Federal Savings Bank continues to be a qualified thrift lender under the HOLA.

Certain states require registration and periodic reporting by insurance companies that are licensed in such states and are controlled by other corporations. Applicable legislation typically requires periodic disclosure concerning the corporation that controls the registered insurer and the other companies in the holding company system and prior approval of intercorporate services and transfers of assets (including in some instances payment of dividends by the insurance subsidiary) within the holding company system. AIG's subsidiaries are registered under such legislation in those states that have such requirements.

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to approval of policy forms and rates, the standards of solvency that must be met and maintained, including risk-based capital, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, and reserves for unearned premiums, losses and other purposes. In general, such regulation is for the protection of policyholders rather than the equity owners of these companies.

AIG has taken various steps to enhance the capital positions of the Chartis U.S. companies. AIG entered into capital maintenance agreements with these companies that set forth procedures through which AIG has provided, and expects to continue to provide, capital support. Also, in order to allow the Chartis companies to record as an admitted asset at December 31, 2009 certain reinsurance ceded to non-U.S. reinsurers (which has the effect of maintaining the level of the statutory surplus of such companies), AIG obtained and entered into reimbursement agreements for approximately \$1.5 billion of letters of credit issued by several commercial banks in favor of certain Chartis companies and funded trusts totaling \$2.8 billion.

In the U.S., the Risk-Based Capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Thus, inadequately capitalized general and life insurance companies may be identified. The U.S. RBC formula develops a risk-adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also based on the risk profile of the insurer's operations.

The RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to placing the insurer under regulatory control.

The statutory surplus of each of the U.S.-based life and property and casualty insurance subsidiaries exceeded their RBC minimum required levels as of December 31, 2009.

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To the extent that any of AIG's insurance entities would fall below prescribed levels of statutory surplus, it would be AIG's intention, subject to FRBNY approval, to provide appropriate capital or other types of support to that entity.

A substantial portion of AIG's general insurance business and a majority of its life insurance business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification or revocation by such authorities, and these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate.

In addition to licensing requirements, AIG's foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the local government, to which admitted insurers are obligated to cede a portion of their business on terms that may not always allow foreign insurers, including AIG subsidiaries, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

See Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Regulation and Supervision and Note 17 to Consolidated Financial Statements.

### **Competition**

AIG's businesses operate in highly competitive environments, both domestically and overseas. Principal sources of competition are insurance companies, banks, investment banks and other non-bank financial institutions.

The insurance industry in particular is highly competitive. Within the United States, Chartis subsidiaries compete with approximately 3,300 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. AIG's Domestic Life Insurance & Retirement Services subsidiaries compete in the United States with approximately 1,900 life insurance companies and other participants in related financial services fields. Overseas, AIG's subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies in particular areas in which they are active.

As a result of the reduction of the credit ratings of AIG and its subsidiaries, uncertainty relating to AIG's financial condition and AIG's asset disposition plan, AIG's businesses have faced and continue to face intense competition to retain existing customers and to maintain business with existing customers and counterparties at historical levels. Further, AIG has been and continues to be at a significant disadvantage in certain markets in soliciting new customers. Although surrender rates have begun to stabilize, AIG expects these difficult conditions to continue for the foreseeable future.

Competition is also intense for key employees. The announced asset dispositions, limitations placed by the American Recovery and Reinvestment Act of 2009 and the Special Master for Troubled Asset Relief Program (TARP) Executive Compensation on compensation arrangements and programs, decline in AIG's common stock price and uncertainty surrounding AIG's financial condition have adversely affected AIG's ability to retain and motivate key employees and to attract new employees. It is unclear whether, for the foreseeable future, AIG will be able to create a compensation structure that permits AIG to retain and motivate key employees.

For a further discussion of the risks relating to retaining existing customers, soliciting new customers and retaining key employees, see item 1A. Risk Factors.

### **Other Information about AIG**

At December 31, 2009, AIG and its subsidiaries had approximately 96,000 employees.

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AIG's Internet address for its corporate website is [www.aigcorporate.com](http://www.aigcorporate.com). AIG makes available free of charge, through the Investor Information section of AIG's corporate website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements on Schedule 14A and amendments to those reports or statements filed or furnished pursuant to Sections 13(a), 14(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act) as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). AIG also makes available on its corporate website copies of the charters for its Audit, Nominating and Corporate Governance and Compensation and Management Resources Committees, as well as its Corporate Governance Guidelines (which include Director Independence Standards), Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics, Employee Code of Conduct and Related-Party Transactions Approval Policy. Except for the documents specifically incorporated by reference into this Annual Report on Form 10-K, information contained on AIG's website or that can be accessed through its website is not incorporated by reference into this Annual Report on Form 10-K.

### **Directors and Executive Officers of AIG**

All directors of AIG are elected for one-year terms at the annual meeting of shareholders. In addition, the terms of each of the AIG Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value \$5.00 per share, (AIG Series E Preferred Stock) and the AIG Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value \$5.00 per share, (AIG Series F Preferred Stock) provide for the election of the greater of two additional directors or up to 20 percent of the total number of AIG directors (rounded up after giving effect to the election) upon a failure of AIG to make four quarterly dividend payments, whether or not consecutive. These preferred directors would be elected by a majority of the votes cast by the holder of the AIG Series E Preferred Stock and the AIG Series F Preferred Stock, voting together as a single class. If elected, such preferred directors would hold office until the next annual meeting (or special meeting called to elect directors) or until all dividends payable on all outstanding shares of the AIG Series E Preferred Stock and the AIG Series F Preferred Stock have been declared and paid in full for four consecutive quarters. As of February 17, 2010, the holder of the AIG Series E Preferred Stock and the AIG Series F Preferred Stock had not elected any directors pursuant to the provision, although AIG had failed to make four quarterly dividend payments.

All executive officers are elected to one-year terms, but serve at the pleasure of the Board of Directors. Except as hereinafter noted, each of the executive officers has, for more than five years, occupied an executive position with AIG or companies that are now its subsidiaries. There are no arrangements or understandings between any executive officer and any other person pursuant to which the executive officer was elected to such position. Prior to joining AIG in August 2009, Mr. Benmosche served as a member of the Board of Directors of Credit Suisse Group since 2002. Mr. Benmosche was former Chairman, President, and Chief Executive Officer of MetLife, a leading provider of insurance and other financial services. Earlier in his career he served as Executive Vice President for PaineWebber, Inc. Mr. Hancock served as Vice Chairman of Key Corp. from January 2008 until joining AIG in February 2010. Mr. Hancock was Managing Director of Trinsum Group, Inc., an asset management and strategic advisory firm from 2007 to January 2008 and President and Co-Founder of Integrated Finance Limited, an asset management and strategic advisory firm from 2002 to 2007. Mr. Russo was Senior Counsel at Patton Boggs LLP prior to joining AIG in February 2010. Mr. Russo served as Executive Vice President and Chief Legal Officer of Lehman Brothers Holdings Inc. for more than five years prior to December 2008. Mr. Wilson spent 18 years with AXA Asia Pacific Holdings Limited, a leading provider of life insurance, wealth management and advice businesses in the Asia-Pacific region, where he held a number of senior management positions until joining AIA as Deputy President in December 2006. In 2007, he was promoted to President and Chief Operating Officer of AIA, and in May 2009 he became Chief Executive Officer and President of AIA Group Limited.

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**Set forth below is information concerning the directors and executive officers of AIG as of February 25, 2010.**

Name	Title	Age	Served as Director or Officer Since
Robert H. Benmosche	Director and Chief Executive Officer	65	2009
Dennis D. Dammerman	Director	64	2008
Harvey Golub	Director and Chairman of the Board of Directors	70	2009
Laurette T. Koellner	Director	55	2009
Christopher S. Lynch	Director	52	2009
Arthur C. Martinez	Director	70	2009
George L. Miles, Jr.	Director	68	2005
Robert S. Miller	Director	68	2009
Suzanne Nora Johnson	Director	52	2008
Morris W. Offit	Director	73	2005
Douglas M. Steenland	Director	58	2009
Peter D. Hancock	Executive Vice President Finance, Risk and Investments	51	2010
David L. Herzog	Executive Vice President and Chief Financial Officer	50	2005
Rodney O. Martin, Jr.	Executive Vice President Life Insurance	57	2002
Kristian P. Moor	Executive Vice President Domestic General Insurance	50	1998
Thomas A. Russo	Executive Vice President Legal, Compliance, Regulatory Affairs, Government Affairs and General Counsel	66	2010
Nicholas C. Walsh	Executive Vice President Foreign General Insurance	59	2005
Mark A. Wilson	Executive Vice President Life Insurance	43	2010
Jay S. Wintrob	Executive Vice President Domestic Life and Retirement Services	52	1999
William N. Dooley	Senior Vice President Financial Services	57	1992
Jeffrey J. Hurd	Senior Vice President Human Resources and Communications	43	2010
Robert E. Lewis	Senior Vice President and Chief Risk Officer	58	1993
Monika M. Machon	Senior Vice President and Chief Investment Officer	49	2009
Brian T. Schreiber	Senior Vice President Strategic Planning	44	2002

### **Item 1A. Risk Factors**

AIG has been significantly and adversely affected by the market turmoil in late 2008 and early 2009, and, despite the recovery in the markets in mid and late 2009, is subject to significant risks, as discussed below. Many of these risks are interrelated and occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence, or exacerbate the effect, of others. Such a combination could materially increase the severity of the impact on AIG. As a result, should certain of these risks emerge, AIG may need additional support from the U.S. government. Without additional support from the U.S. government, in the future there could exist substantial doubt about AIG's ability to continue as a going concern. See Management's Discussion and Analysis of Financial Condition and Results of Operations Consideration of AIG's Ability to Continue as a Going Concern and Note 1 to the Consolidated Financial Statements for a further discussion.

Since September 2008, AIG has been working to protect and enhance the value of its key businesses, to execute an orderly asset disposition plan and to position itself for the future, with the primary goal of enabling it to repay U.S. taxpayers for the support it has received. AIG's efforts have been and continue to be subject to risks, the most significant of which are the following:

### **Execution of Restructuring Plan**

*A number of factors outside AIG's control could impair AIG's ability to implement its asset disposition plan, which is a critical component of AIG's plan to repay U.S. taxpayers for the support provided under the Credit Facility (FRBNY Credit Facility) provided by the FRBNY under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY*





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*Credit Agreement*), and the TARP preferred stock issued to the Department of the Treasury. AIG's asset disposition plan could be adversely affected by an inability to complete asset dispositions due to, among other things:

an inability of purchasers to obtain funding;

a general unwillingness of potential buyers to commit capital;

an adverse change in interest rates and borrowing costs; and

declines in AIG asset values and deterioration in its businesses.

Further, AIG may be unable to negotiate favorable terms in connection with asset sales, including with respect to price. As a result, AIG may need to modify its asset disposition plan to sell additional or different assets.

*As part of its restructuring efforts, AIG may need to materially alter its capital structure.* In connection with its restructuring efforts, AIG may need to materially alter its current capital structure. This could include the issuance of additional shares of AIG common stock, par value \$2.50 per share (AIG Common Stock) or other equity securities that may dilute, perhaps significantly, the current holders of AIG Common Stock.

The complexity of executing AIG's asset disposition plan, combined with the challenges of operating AIG's businesses in the current environment, could place further stress on AIG's internal controls, increase AIG's costs and divert the attention of AIG management and employees from their normal duties. The execution of AIG's asset disposition plan has introduced a large number of complex and non-standard transactions which are placing a strain on existing resources, systems and communication channels. Furthermore, AIG's employees are operating in an environment where the frequency and uncertainty of developments could decrease the attention devoted to internal controls over financial reporting. Although AIG is taking steps to mitigate these risks, including through the use of third party consultants and advance planning, it is possible that these risks could delay AIG from preparing timely financial statements and making required filings in a timely manner, and otherwise adversely affect AIG's internal controls over financial reporting.

The restructuring of AIG's businesses is a complex undertaking requiring the creation of standalone infrastructure and systems at certain subsidiaries. The duplication of infrastructure and systems will continue to increase AIG's costs.

### **Highly Leveraged Capital Structure**

*AIG has a highly leveraged capital structure and has significant preferred stock outstanding.* As of December 31, 2009, AIG had approximately \$141.5 billion of consolidated indebtedness, including \$23.4 billion and \$4.7 billion outstanding under the FRBNY Credit Facility (all of which is secured indebtedness) and the FRBNY Commercial Paper Funding Facility (CPFF), respectively. In addition, as of the same date, AIG had \$41.6 billion and \$5.3 billion aggregate liquidation preference of AIG Series E Preferred Stock and AIG Series F Preferred Stock, respectively. The market capitalization of the AIG Common Stock was \$4.0 billion as of December 31, 2009 and \$3.6 billion at February 17, 2010.

This highly leveraged capital structure may have several important consequences on AIG's future operations, including, but not limited to:

The obligations of AIG under the AIG Series E Preferred Stock and AIG Series F Preferred Stock are significantly in excess of the market capitalization of the AIG Common Stock, and, in the event of a liquidation, dissolution or winding up of AIG, all of these preferred stock obligations would have to be paid before any payment could be made on the AIG Common Stock. Moreover, AIG may make further drawdowns on the commitment of the Department of the Treasury under the AIG

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Series F Preferred Stock (the Department of the Treasury Commitment) and thereby increase its preferred stock obligations.

AIG does not anticipate paying dividends on the AIG Common Stock in the foreseeable future.

The trading market for the AIG Common Stock has been extremely volatile and this volatility may continue for the foreseeable future.

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**Liquidity**

*AIG parent's ability to access funds from its subsidiaries is limited.* As a holding company, AIG parent depends on dividends, distributions and other payments from its subsidiaries to fund payments due on AIG's obligations, including its outstanding debt. Further, the majority of AIG's investments are held by its regulated subsidiaries. In light of AIG's current financial situation and the retained deficit resulting from the losses recorded in recent quarters, certain of AIG's regulated subsidiaries have been restricted from making dividend payments, or advancing funds, to AIG, and AIG expects these restrictions to continue. In the case of subsidiaries not currently subject to these restrictions, these subsidiaries may be limited in their ability to make dividend payments or advance funds to AIG in the future because of the need to support their own capital levels.

In addition, in connection with the execution of the purchase agreement between AIG and AIRCO and the FRBNY, dated June 25, 2009 (AIA Purchase Agreement), and the purchase agreement between AIG and the FRBNY, dated June 25, 2009 (ALICO Purchase Agreement), on December 1, 2009, AIG, the FRBNY and each special purpose vehicle (SPV) entered into limited liability company agreements, which set forth the terms and conditions of the respective parties' ownership and governance rights in each SPV. Under the terms of these agreements, the AIA SPV and the ALICO SPV may only distribute funds to AIG parent (prior to the payment of the preferred returns and liquidation preferences on the preferred interests in each respective SPV and, in the case of the AIA SPV, a payment of 1 percent of the net income of the AIA SPV to the holders of the preferred interests in the AIA SPV for all fiscal years prior to payment of the preferred return and liquidation preference) in an aggregate amount not to exceed \$200 million and \$400 million, respectively, per fiscal year.

These factors may hinder AIG's ability to access funds that AIG parent may need to make payments on its obligations, including those arising from day-to-day business activities.

*AIG parent's ability to support its subsidiaries is limited.* Historically, AIG has provided capital and liquidity to its subsidiaries to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations. More recently, AIG has relied on the FRBNY Credit Facility and the Department of the Treasury Commitment to meet these needs, given AIG's inability to access its traditional sources of liquidity, including the public debt markets, since the third quarter of 2008. AIG's current limited access to liquidity may reduce or prevent AIG from providing support to its subsidiaries. If AIG is unable to provide support to a subsidiary having an immediate capital or liquidity need, the subsidiary could become insolvent or, in the case of an insurance subsidiary or other regulated entity, could be seized by its regulator.

*Certain of the investments held by AIG's subsidiaries are illiquid and/or are difficult to sell, or to sell in significant amounts or at acceptable prices, to generate cash to meet their needs.* AIG's subsidiaries' investments in certain securities, including certain fixed income securities and certain structured securities, private equity securities, investment partnerships, mortgage loans, flight equipment, finance receivables and real estate are illiquid or may not be disposed of quickly. These asset classes represented approximately 23 percent of the carrying value of AIG's total consolidated cash and invested assets at December 31, 2009. In addition, the steep decline in the U.S. real estate market and tight credit markets have materially adversely affected the liquidity of other AIG securities portfolios, including its residential and commercial mortgage-related securities and investment portfolios. In the event additional liquidity is required by one or more AIG subsidiaries beyond what can be provided through cash generated by operations or the sale or monetization of their more liquid assets, it may be difficult to generate additional liquidity by selling, pledging or otherwise monetizing the less liquid investments described above.

**Credit and Financial Strength Ratings**

*Adverse ratings actions regarding AIG's long-term debt ratings by the major rating agencies would require AIG to post a substantial amount of additional collateral payments pursuant to, and/or permit the termination of, derivative transactions to which AIGFP is a party, which could further adversely affect AIG's business and its consolidated results of operations, financial condition and liquidity. Additional obligations to post collateral or the costs of assignment, termination or obtaining alternative credit could significantly reduce the amounts then available under the FRBNY Credit Facility and the Department of the Treasury Commitment. Credit ratings estimate a company's ability to meet its obligations and may*

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*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, AIGFP would be required to post additional collateral, and certain of AIGFP's counterparties would be permitted to elect early termination of contracts.

For a further discussion of AIG's liquidity, see Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity Liquidity.

It is estimated that as of the close of business on February 17, 2010, based on AIG's outstanding financial derivative transactions, including those of AIGFP at that date, a one-notch downgrade of AIG's long-term senior debt ratings to Baa1 by Moody's Investors Service (Moody's) and BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit the counterparties to elect early termination of contracts, resulting in up to approximately \$1.8 billion of corresponding collateral postings and termination payments; a two-notch downgrade to Baa2 by Moody's and BBB by S&P would result in approximately \$1.4 billion in additional collateral postings and termination payments above the one-notch downgrade amount; and a three-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately \$0.3 billion in additional collateral postings and termination payments above the two-notch downgrade amount. Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the Credit Support Annex (CSA) with each counterparty and current exposure as of February 17, 2010. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. The actual termination payments could significantly differ from management's estimates given market conditions at the time of downgrade and 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.

*Adverse rating actions could result in further reductions in credit limits extended to AIG and in a decline in the number of counterparties willing to transact with AIG or its subsidiaries.* To appropriately manage risk, AIG needs trading counterparties willing to extend sufficient credit limits to purchase and sell securities, commodities and other assets, as well as to conduct hedging activities. To the extent that counterparties are unwilling to trade with or to extend adequate credit limits to AIG or its subsidiaries, AIG could be exposed to open positions or other unhedged risks, resulting in increased volatility of results and increased losses.

*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 business.* Insurer Financial Strength ratings are an important factor in establishing the competitive position of insurance companies. Insurer 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 parent and subsidiary ratings, result in a downgrade of the Insurer Financial Strength ratings of AIG's insurance subsidiaries.

### **FRBNY Credit Facility**

*The FRBNY Credit Agreement requires AIG to devote significant resources to debt repayment for the foreseeable future, thereby significantly reducing capital available for other purposes.* AIG is required to repay the five-year FRBNY Credit Facility primarily using the proceeds from sales of assets, including businesses. Unless otherwise agreed by the FRBNY, the amount available under the FRBNY Credit Facility is generally permanently reduced by the amount of the net cash proceeds from asset dispositions.

AIG's significant obligations require it to dedicate all of its net cash proceeds from asset dispositions and a considerable portion of its cash flows from operations to the repayment of the FRBNY Credit Facility, thereby

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reducing the funds available for investment in its businesses. Moreover, because AIG's debt service obligations are very high, AIG may be more vulnerable to competitive pressures and have less flexibility to plan for or respond to changing business and economic conditions.

*AIG must sell or otherwise dispose of significant assets to service the debt under the FRBNY Credit Facility.* AIG must make asset dispositions to repay the borrowings under the FRBNY Credit Facility. A continued delay or inability to effect these dispositions at acceptable prices and on acceptable terms could result in AIG being unable to repay the FRBNY Credit Facility by its maturity date.

If AIG is not able to repay the FRBNY Credit Facility from the proceeds of asset dispositions and cannot otherwise repay the FRBNY Credit Facility in accordance with its terms, an event of default would result. In such an event, the FRBNY could enforce its security interest in AIG's pledged collateral. In addition, an event of default or declaration of acceleration under the FRBNY Credit Agreement could also result in an event of default under other agreements. In such an event, AIG would likely not have sufficient liquid assets to meet its obligations under such agreements and could become insolvent.

*Borrowings available to AIG under the FRBNY Credit Facility and drawdowns under the Department of the Treasury Commitment may not be sufficient to meet AIG's funding needs and additional financing may not be available or could be prohibitively expensive.* The inability of AGF or ILFC to raise sufficient liquidity to meet their obligations without support from AIG, additional collateral calls, deterioration in investment portfolios affecting statutory surplus, high surrenders of annuity and other policies, further downgrades in AIG's credit ratings, catastrophe losses or reserve strengthening, or a further deterioration in AIGFP's remaining super senior credit default swap portfolio could cause AIG to require additional funding in excess of the borrowings available under the FRBNY Credit Facility and available drawdowns on the Department of the Treasury Commitment. In that event, AIG would be required to find additional financing and new financing sources. Such financing could be difficult, if not impossible, to obtain and, if available, very expensive, and additional funding from the FRBNY, the Department of the Treasury or other government sources may not be available. If AIG is unable to obtain sufficient financing to meet its capital needs, AIG could become insolvent.

*The FRBNY Credit Agreement includes financial and other covenants that impose restrictions on AIG's financial and business operations.* The FRBNY Credit Agreement requires AIG to maintain a minimum aggregate liquidity level and restricts AIG's ability to make certain capital expenditures. The FRBNY Credit Agreement also restricts the ability of AIG parent and its restricted subsidiaries 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 FRBNY 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 FRBNY could, among other things, declare outstanding borrowings under the FRBNY Credit Agreement immediately due and payable and enforce its security interest in AIG's pledged collateral. In addition, an event of default or declaration of acceleration under the FRBNY Credit Agreement could also result in an event of default under AIG's other agreements. In such an event, AIG would likely not have sufficient liquid assets to meet its obligations under such agreements and could become insolvent.

## **Controlling Shareholder**

*The AIG Credit Facility Trust, a trust for the sole benefit of the United States Treasury, which is overseen by three trustees, holds a controlling interest in AIG. AIG's interests and those of AIG's minority shareholders may not be the same as those of the Trust or the United States Treasury.* In accordance with the FRBNY Credit Agreement, in early March 2009, AIG issued 100,000 shares of the AIG Series C Perpetual, Convertible, Participating Preferred Stock, par value \$5.00 per share (AIG Series C Preferred Stock) to the Trust, a trust for the sole benefit of the United States Treasury

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established under the AIG Credit Facility Trust Agreement dated as of January 16, 2009 (as it may be amended from time to time, the Trust Agreement). The AIG Series C Preferred Stock is entitled to:

participate in any dividends paid on AIG's Common Stock, with the payments attributable to the AIG Series C Preferred Stock being approximately 79.8 percent of the aggregate dividends paid on AIG's Common Stock, treating the AIG 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 79.8 percent of the aggregate voting power of AIG's Common Stock, treating the AIG Series C Preferred Stock as converted.

The AIG Series C Preferred Stock will remain outstanding even if the FRBNY Credit Facility is repaid in full or otherwise terminates. In addition, upon shareholder approval and the filing with the Delaware Secretary of State of certain amendments to AIG's Amended and Restated Certificate of Incorporation, the Trust will be able to convert at its option all or a portion of the AIG Series C Preferred Stock into shares of AIG's Common Stock.

As a result of its ownership of the AIG Series C Preferred Stock, the Trust is able, subject to the terms of the Trust Agreement and the AIG Series C Preferred Stock, to elect all of AIG's directors and will be able, to the extent permitted by law, to control the vote on substantially 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; and

other matters that might be favorable to the United States Treasury, but not to AIG's other shareholders.

Moreover, the Trust's ability to cause or prevent a change in control of AIG could also have an adverse effect on the market price of AIG's Common Stock.

The Trust may also, subject to the terms of the Trust Agreement and applicable securities laws, transfer all, or a portion of, the AIG Series C Preferred Stock to another person or entity and, in the event of such a transfer, that person or entity could become the controlling shareholder.

*Possible future sales of AIG Series C Preferred Stock or common stock by the Trust could adversely affect the market for AIG Common Stock.* Pursuant to the AIG Series C Preferred Stock Purchase Agreement, dated as of March 1, 2009 (the AIG Series C Preferred Stock Purchase Agreement), between the Trust and AIG, AIG has agreed to file a shelf registration statement that will allow the Trust to publicly sell AIG Series C Preferred Stock or any shares of AIG's Common Stock it receives upon conversion of the AIG Series C Preferred Stock. In addition, the Trust could sell AIG Series C Preferred Stock or shares of AIG's 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's Common Stock, sales of substantial amounts of AIG Series C Preferred Stock or AIG's Common Stock, or the perception that such sales could occur, could adversely affect the market price of AIG's Common Stock. If the Trust sells or transfers shares of AIG Series C Preferred Stock or AIG's Common Stock as a block, another person or entity could become AIG's controlling shareholder.

### **Market Conditions**

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*AIG's businesses, consolidated results of operations and financial condition have been and may continue to be materially and adversely affected by market conditions.* AIG's businesses are highly dependent on the business environment in which they operate. In 2008 and through early 2009, the significant deterioration in worldwide economic conditions materially and adversely affected AIG's businesses. The global financial crisis resulted in a serious lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, a widening of credit spreads, a lack of price transparency in many markets and the collapse or merger of several prominent financial institutions. Difficult economic conditions also resulted in increased unemployment and a severe decline in business activity across a wide range of industries and regions. While the markets and the business



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environment have generally stabilized and improved in mid and late 2009, asset values for many asset classes have not returned to previous levels and business, and financial and economic conditions, particularly unemployment levels, lending activities and the housing markets, continue to be negatively affected. There can be no assurance that the conditions supporting the recent recovery will continue in the near or long term. If they do not, AIG may be negatively affected in a number of ways, including:

declines in the valuation and performance of its investment portfolio;

unrealized market valuation losses on its super senior credit default swap portfolio;

an inability to implement its asset disposition program, as discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Capital Resources and Liquidity AIG's Strategy for Stabilization and Repayment of its Obligations as They Come Due Asset Disposition Plan;

increased credit losses;

impairments of goodwill and other long-lived assets;

an increase in the valuation allowance relating to its deferred tax asset;

a decline in new business levels;

an increase in policy surrenders and cancellations;

a writeoff of deferred policy acquisition costs (DAC); and

the ability of current or potential contractual counterparties to execute transactions that are part of AIG's asset disposition plans.

### **Reputational Harm**

*Adverse publicity and public reaction to events concerning AIG has had and may continue to have a material adverse effect on AIG.* Since September 2008, AIG has been the subject of intense scrutiny and extensive comment by the global news media and segments of the public at large in the communities that AIG serves. At times, there has been strong criticism of actions taken by AIG, its management and its employees and of transactions in which AIG has engaged. In a few instances, such as the public reaction over the payment of retention awards to AIGFP employees, this criticism has included harassment of individual AIG employees and public protest affecting AIG facilities.

This scrutiny and extensive commentary have adversely affected AIG by damaging AIG's business, reputation and brand among current and potential customers, agents and other distributors of AIG products and services, thereby reducing sales of AIG products and services, and resulting in an increase in AIG policyholder surrenders and non-renewals of AIG policies. This scrutiny and commentary have also undermined employee morale and AIG's ability to motivate and retain its employees. If this level of criticism continues or increases, AIG's business may be further adversely affected and its ability to retain and motivate employees further harmed.

### **Employees**

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*The limitations on incentive compensation contained in the American Recovery and Reinvestment Act of 2009, and the restrictions placed on compensation by the Special Master for TARP Executive Compensation, may adversely affect AIG's ability to retain and motivate its highest performing employees.* The American Recovery and Reinvestment Act of 2009 (Recovery Act) contains restrictions on bonus and other incentive compensation payable to the five executives named in a company's proxy statement and the next twenty highest paid employees of companies receiving TARP funds. Pursuant to the Recovery Act, the Office of the Special Master for TARP Executive Compensation (Special Master) issued Determination Memorandum with respect to AIG's named executive officers (except for the Chief Executive Officer) and twenty highest paid employees, and reviewed AIG's compensation arrangements for its next 75 most highly compensated employees and issued a Determination Memorandum on their compensation structures, which

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placed significant new restrictions on their compensation as well. Historically, AIG has embraced a pay-for-performance philosophy. Based on the limitations placed on incentive compensation by the Determination Memoranda issued by the Special Master, it is unclear whether, for the foreseeable future, AIG will be able to create a compensation structure that permits AIG to retain and motivate its most senior and most highly compensated employees and other high performing employees who become subject to the purview of the Special Master. An inability of AIG to retain and motivate its highest performing employees may affect its ability to stabilize its businesses, execute its asset disposition and restructuring activities and prepare and make required filings in a timely manner with the SEC and other federal, state and foreign regulators.

*A loss of key AIGFP employees could prevent an orderly wind-down of AIGFP's businesses and portfolios, lead to potentially significant losses and could adversely affect AIG's internal control over financial reporting.* In light of, among other things, the negative publicity surrounding the retention payments to AIGFP employees, a number of key employees have left AIGFP. Moreover, substantially all of the last installment of the AIGFP retention awards has been paid. Going forward, the lack of further retention incentives may adversely affect AIG's ability to retain AIGFP personnel to complete the process of unwinding AIGFP's businesses. While AIGFP continues to wind down its business in an orderly manner, the loss of additional key employees could adversely affect AIG's ability to effectively wind down AIGFP and AIG's internal control over financial reporting, notwithstanding the additional consulting resources retained at AIGFP during 2009. Although AIG views the large-market risk books at AIGFP as generally well hedged, except for credit risk, maintaining the hedges requires continuous monitoring and adjustment. If AIGFP loses the key employees who are familiar with and know how to hedge these positions, gaps in hedging could result in significant losses to AIGFP. AIG relies upon the knowledge and experience of the AIGFP employees involved in the financial reporting process for the effective and timely preparation of required filings and financial statements and operation of internal controls. In addition, AIGFP's portfolios contain a significant number of complex transactions that are difficult to understand and manage. It would not be practical to replace all the key AIGFP traders and risk managers who oversee these complex transactions if these employees were to leave AIGFP. Personal knowledge of these trades and the unique systems at AIGFP is critical to an effective wind-down of AIGFP's businesses and portfolios. Furthermore, in the current economic environment, any perceived disruption in AIGFP's ability to conduct business, such as one that would result from the departure of these key employees, could cause parties to limit or cease trading with AIGFP, which would further adversely affect AIGFP's ability to cost-effectively hedge its positions and its effort to wind down its businesses and portfolios.

*Because of the decline in the value of equity awards previously granted to employees, and the uncertainty surrounding AIG's asset disposition program, AIG may be unable to retain key employees.* 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. Also, the announcement of proposed asset dispositions has resulted in competitors seeking to hire AIG's key employees. Retention programs have assisted AIG in keeping key employees, but there can be no assurance that newly adopted compensation programs will provide similar retentive benefits. A loss of key employees could reduce the value of AIG's businesses and impair its ability to effect a successful restructuring plan.

*A loss of key employees in AIG's financial reporting process could prevent AIG from making required filings and preparing financial statements on a timely basis and otherwise could adversely affect its internal controls.* AIG relies upon the knowledge and experience of the employees involved in the financial reporting process for the effective and timely preparation of required filings and financial statements and operation of internal controls. If these employees depart, AIG may not be able to replace them with individuals having comparable knowledge and experience. Retention programs have assisted AIG in keeping key employees, but there can be no assurance that newly adopted compensation programs will provide similar retentive benefits.

*Conflicts of interest may arise as AIG implements its asset disposition plan.* AIG relies on certain key employees to operate its businesses during the asset disposition period, to provide information to prospective buyers and to maximize the value of businesses to be divested. The successful completion of the asset disposition plan could be adversely affected by any conflict of interests arising as a result of the asset disposition process between AIG, which is generally interested in maximizing the proceeds from an asset disposition, and its employees, who may be focused on obtaining employment from the acquiror.

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*Employee error and misconduct may be difficult to detect and prevent and may result in significant losses.* Losses may result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization or failure to comply with regulatory requirements, both generally, and during the asset disposition process. There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years, and AIG runs the risk that employee misconduct could occur. It is not always possible to deter or prevent employee misconduct, and the controls that AIG has in place to prevent and detect this activity may not be effective in all cases. This risk may be heightened by AIG's asset disposition program since employees who perceive that they will lose their jobs may engage in intentional misconduct or simply fail to comply with AIG's reporting requirements.

### **Policyholder Behavior**

*AIG's policyholders and agents and other distributors of AIG's insurance products have expressed significant concerns in the wake of announcements by AIG of adverse financial results.* Many of AIG's businesses depend upon the financial stability (both actual and perceived) of AIG parent. Concerns that AIG or its subsidiaries may not be able to meet their obligations have negatively affected 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 counterparties, customers or vendors to continue to do business with AIG; and

requests by customers and other parties to terminate existing contractual relationships.

Continued economic uncertainty, additional adverse results or a lack of confidence in AIG and AIG's businesses may cause AIG customers, agents and other distributors to cease or reduce their dealings with AIG, turn to competitors or shift to products that generate less income for AIG. Although AIG has announced its intent to refocus its business and certain AIG subsidiaries are rebranding themselves in an attempt to overcome a perception of instability, AIG cannot be sure that such efforts will be successful in attracting or maintaining clients.

### **Concentration of Investments and Exposures**

*Concentration of AIG's investment portfolios in any particular segment of the economy may have adverse effects.* AIG's results of operations have been adversely affected and may continue to be adversely affected by a concentration in residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and commercial mortgage loans. AIG also has significant exposures to financial institutions and, in particular, to money center and global banks. These types of concentrations in AIG's investment portfolios could have an adverse effect on the value of these portfolios and consequently on AIG's consolidated results of operations and financial condition. While AIG seeks to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular industry, asset class, group of related industries or geographic region may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated. Furthermore, AIG's ability to sell assets relating to such particular groups of related assets may be limited if other market participants are seeking to sell at the same time.

*Concentration of AIG's insurance and other risk exposures may have adverse effects.* AIG seeks to manage the risks to which it is exposed as a result of the insurance policies, derivatives and other obligations that it undertakes to customers and counterparties by monitoring the diversification of its exposures by exposure type, industry, geographic region, counterparty and otherwise and by using reinsurance, hedging and other arrangements to limit or offset exposures that exceed the limits it wishes to retain. In certain circumstances, or with respect to certain exposures, such risk management arrangements may not be available on acceptable terms, or AIG's exposure in absolute terms may be so large that even slightly adverse experience compared to AIG's expectations may cause a material adverse effect on AIG's consolidated financial condition or results of operations.

### **Casualty Insurance Underwriting and Reserves**

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*Casualty insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses.* Although AIG regularly reviews the adequacy of the established Liability for unpaid claims and claims adjustment

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expense and conducts an extensive analysis of its reserves at each year end, there can be no assurance that AIG's loss reserves will not develop adversely and have a material adverse effect on AIG's results of operations. For example, in the fourth quarter of 2009, AIG's general insurance operations recorded a \$2.3 billion reserve strengthening charge. 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, D&O, 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 or in the judicial environment, or in other social or economic phenomena affecting claims, such as the effects that the recent disruption in the credit markets could have on reported claims under D&O or professional liability coverages. For a further discussion of AIG's loss reserves, including the fourth quarter 2009 charge relating to an increase in the net loss and loss adjustment reserves, see Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Results General Insurance Operations Liability for unpaid claims and claims adjustment expense.

### **Risk Management**

*AIG is exposed to a number of significant risks, and AIG's risk management policies, processes and controls may not be effective in mitigating AIG's risk exposures in all market conditions and to all types of risk.* The major risks to which AIG is exposed include credit risk, market risk, including credit spread risk, operational risk, liquidity risk and insurance risk. AIG's risk management policies, tools and processes have in the past been ineffective and could be ineffective in the future as well. A failure of AIG's risk management could materially and adversely affect AIG's consolidated results of operations, liquidity or financial condition, result in regulatory action or litigation or further damage AIG's reputation. For a further discussion of AIG's risk management process and controls, see Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management.

*Operational risks of asset dispositions.* AIG is exposed to various operational risks associated with the dispositions of subsidiaries and the resulting restructuring of AIG at the business and corporate levels. These risks include the ability to deconsolidate systems and processes of divested operations without adversely affecting AIG, the ability of AIG to fulfill its obligations under any transition separation agreements agreed upon with buyers, the ability of AIG to downsize the corporation as dispositions are accomplished and the ability of AIG to continue to provide services previously performed by divested entities.

*AIGFP wind-down risks.* An orderly and successful wind-down of AIGFP's businesses and portfolios is subject to numerous risks, including market conditions, counterparty willingness to transact or terminate transactions with AIGFP and the retention of key personnel. An orderly and successful wind-down will also depend on the stability of AIG's credit ratings. Further downgrades of AIG's credit ratings likely would have an adverse effect on the wind-down of AIGFP's businesses and portfolios.

### **Regulatory Capital Credit Default Swap Portfolio**

*A deterioration in the credit markets may cause AIG to recognize unrealized market valuation losses in AIGFP's regulatory capital super senior credit default swap portfolio in future periods which could have a material adverse effect on AIG's consolidated financial condition or consolidated results of operations. Moreover, depending on how the extension of the Basel I capital floors is implemented, the period of time that AIGFP remains at risk for such deterioration could be significantly longer than anticipated by AIGFP.*

A total of \$150.0 billion in net notional amount of the super senior credit default swap (CDS) portfolio of AIGFP as of December 31, 2009, represented derivatives written for financial institutions, principally in Europe, which AIG understands to have been originally written primarily for the purpose of providing regulatory capital relief rather than

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for arbitrage purposes. The net fair value of the net derivative asset for these CDS transactions was \$116 million at December 31, 2009.

The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of the Capital Accord of the Basel Committee on Banking Supervision (Basel I) that existed through the end of 2007 and which is in the process of being replaced by the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II). It was originally expected that financial institution counterparties would have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they would have received little or no additional regulatory capital benefit from these CDS transactions, except in a small number of specific instances. However, the Basel Committee recently announced that it has agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame. AIGFP continues to reassess the expected maturity of this portfolio. As of December 31, 2009, AIGFP estimated that the weighted average expected maturity of the portfolio was 1.35 years.

The nature of the information provided or otherwise available to AIGFP with respect to the underlying assets in each regulatory capital CDS transaction is not consistent across all transactions. Furthermore, in a majority of corporate loan transactions and all of the residential mortgage transactions, the pools are blind, meaning that the identities of obligors are not disclosed to AIGFP. In addition, although AIGFP receives periodic reports on the underlying asset pools, virtually all of the regulatory capital CDS transactions contain confidentiality restrictions that preclude AIGFP's public disclosure of information relating to the underlying referenced assets. AIGFP analyzes the information regarding the performance and credit quality of the underlying pools of assets required to make its own risk assessment and to determine any changes in credit quality with respect to such pools of assets. While much of this information received by AIGFP cannot be aggregated in a comparable way for disclosure purposes because of the confidentiality restrictions and the inconsistency of the information, it does provide a sufficient basis for AIGFP to evaluate the risks of the portfolio and to determine a reasonable estimate of fair value.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory capital relief. AIGFP will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Given the potential for further 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. Depending on how the extension of the Basel I capital floors is implemented, AIG could also remain at risk for a significantly longer period of time than originally anticipated. Moreover, given the size of the credit exposure, a decline in the fair value of this portfolio could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period or to AIG's consolidated financial condition.

**Adjustments to Deferred Policy Acquisition Costs for Life Insurance and Retirement Services Companies**

*Interest rate fluctuations, increased surrenders, investment returns and other events may require AIG subsidiaries to accelerate the amortization of deferred policy acquisition costs (DAC) which could adversely affect AIG's consolidated financial condition or results of operations.* DAC represents the costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts. When interest rates rise or customers lose confidence in a company, policy loans and policy surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns or more stability, requiring AIG subsidiaries to accelerate the amortization of DAC. To the extent such amortization exceeds surrender or other charges earned upon surrender and withdrawals of certain life insurance policies and annuity contracts, AIG's results of operations could be negatively affected.

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DAC for both insurance-oriented and investment-oriented products, as well as retirement services products is reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If the actual emergence of future profitability were to be substantially lower than estimated, AIG could be required to accelerate its DAC amortization and such acceleration could adversely affect AIG's results of operations. For a further discussion of DAC, see Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates and Notes 1 and 9 to the Consolidated Financial Statements.

**Catastrophe Exposures**

*The occurrence of catastrophic events could adversely affect AIG's consolidated financial condition or results of operations.* The occurrence of events such as hurricanes, earthquakes, pandemic disease, acts of terrorism and other catastrophes could adversely affect AIG's consolidated financial condition or results of operations, including by exposing AIG's businesses to the following:

widespread claim costs associated with property, workers' compensation, mortality and morbidity claims;

loss resulting from the value of invested assets declining to below the amount required to meet policy and contract liabilities;  
and

loss resulting from actual policy experience emerging adversely in comparison to the assumptions made in the product pricing related to mortality, morbidity, termination and expenses.

**Reinsurance**

*Reinsurance may not be available or affordable.* AIG subsidiaries are major purchasers of reinsurance and utilize reinsurance as part of AIG's overall risk management strategy. Reinsurance is an important risk management tool to manage transaction and insurance line risk retention and to mitigate losses that may arise from catastrophes. Market conditions beyond AIG's control determine the availability and cost of the reinsurance purchased by AIG subsidiaries. For example, reinsurance may be more difficult to obtain after a year with a large number of major catastrophes. Accordingly, AIG may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, in which case AIG would have to accept an increase in exposure risk, reduce the amount of business written by its subsidiaries or seek alternatives.

*Reinsurance subjects AIG to the credit risk of its reinsurers and may not be adequate to protect AIG against losses.* Although reinsurance makes the reinsurer liable to the AIG subsidiary to the extent the risk is ceded, it does not relieve the AIG subsidiary of the primary liability to its policyholders. Accordingly, AIG bears credit risk with respect to its subsidiaries' reinsurers to the extent not mitigated by collateral or other credit enhancements. A reinsurer's insolvency or inability or refusal to make timely payments under the terms of its agreements with the AIG subsidiaries could have a material adverse effect on AIG's results of operations and liquidity. For additional information on AIG's reinsurance, see Management's Discussion and Analysis of Financial Condition and Results of Operations Risk Management Insurance Risk Management Reinsurance.

**Regulation**

*AIG is subject to extensive regulation in the jurisdictions in which it conducts its businesses, and recent regulatory actions have made it challenging for AIG to continue to engage in business in the ordinary course.* AIG's operations around the world are subject to regulation by different types of regulatory authorities, including insurance, securities, investment advisory, banking and thrift regulators in the United States and abroad. AIG's operations have become more diverse and consumer-oriented, increasing the scope of regulatory supervision and the possibility of intervention. In light of AIG's liquidity issues beginning in the third quarter of 2008, AIG and its regulated subsidiaries have been subject to intense review and supervision around the world. Regulators have taken significant steps to protect the businesses of the entities they regulate. These steps have included:



restricting or prohibiting the payment of dividends to AIG parent and its subsidiaries;

restricting or prohibiting other payments to AIG parent and its subsidiaries;

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requesting additional capital contributions from AIG parent;

requesting that intercompany reinsurance reserves be covered by assets locally;

restricting the business in which the subsidiaries may engage;

requiring pre-approval of all proposed transactions between the regulated subsidiaries and AIG parent or any affiliate; and

requiring more frequent reporting, including with respect to capital and liquidity positions.

These and other actions have made it challenging for AIG to continue to maintain focus on its businesses and engage in business in the ordinary course. AIG does not expect these conditions to change in the foreseeable future.

*Requirements of the USA PATRIOT Act, the Office of Foreign Assets Control, and similar laws that apply to AIG may expose AIG to significant penalties.* The operations of certain of AIG's subsidiaries are subject to laws and regulations, including the USA PATRIOT Act of 2001, which requires companies to know certain information about their clients and to monitor their transactions for suspicious activities. In addition, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. Although AIG has instituted compliance programs to address these requirements, there are inherent risks in global transactions such as those engaged in by AIG and its subsidiaries.

*Proposed regulations may affect AIG's operations, financial condition and ability to compete effectively.* Legislators and regulators have recently put forward various proposals that may impact the profitability of certain of AIG's businesses or even its ability to conduct certain businesses at all, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions, and proposals to impose additional taxes on a limited subset of financial institutions and insurance companies (either based on size, activities, geography, government support or other criteria). It is unclear how these and other such proposals would apply to AIG or its competitors or how they could impact AIG's consolidated results of operations, financial condition, and ability to compete effectively.

## **Foreign Operations**

*Foreign operations expose AIG to risks that may affect its operations, liquidity and financial condition.* AIG provides insurance, investment and other financial products and services to both businesses and individuals in more than 130 countries and jurisdictions. A substantial portion of AIG's General Insurance business and all of its Foreign Life Insurance & Retirement Services business is conducted outside the United States. Operations outside the United States, particularly those in developing nations, may be affected by regional economic downturns, changes in foreign currency exchange rates, political upheaval, nationalization and other restrictive government actions, which could also affect other AIG operations.

The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as its subsidiaries operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's financial exposure at that time in that country.

## **Legal Proceedings**

*Significant legal proceedings may adversely affect AIG's results of operations.* AIG is party to numerous legal proceedings, including securities class actions and regulatory or governmental investigations. Due to the nature of the litigation, the lack of precise damage claims and

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the type of claims made against AIG, AIG cannot currently quantify its ultimate or maximum liability for these actions. It is possible that developments in these unresolved matters could have a material adverse effect on AIG's consolidated financial condition or consolidated results of operations for an

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individual reporting period. For a discussion of these unresolved matters, see Note 15 to the Consolidated Financial Statements.

**Use of Estimates**

*If actual experience differs from management's estimates used in the preparation of financial statements, AIG's consolidated results of operations or financial condition could be adversely affected.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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, are those described in Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Estimates. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. Additionally, the recoverability of deferred tax assets depends primarily on AIG achieving its estimated values for all or a portion of AIA and ALICO, as well as certain other transactions. The failure to receive the estimated values or to effect such transactions could result in AIG recording a charge resulting in a reduction, possibly material, of the net deferred tax asset. Further, such transactions could result in a goodwill or other long-lived asset impairment charge. These estimates, by their nature, are based on judgment and current facts and circumstances. Therefore, actual results could differ from these estimates, possibly in the near term, and could have a material effect on the consolidated financial statements.

**Aircraft Suppliers**

*There are limited suppliers of aircraft and engines.* The supply of jet transport aircraft, which ILFC purchases and leases, is dominated by two airframe manufacturers, Boeing and Airbus, and a limited number of engine manufacturers. As a result, ILFC is dependent on the manufacturers' success in remaining financially stable, producing aircraft and related components which meet the airlines' demands, both in type and quantity, and fulfilling their contractual obligations to ILFC. Competition between the manufacturers for market share is intense and may lead to instances of deep discounting for certain aircraft types that could negatively affect ILFC's competitive pricing.

**Item 1B. Unresolved Staff Comments**

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of AIG's fiscal year relating to AIG's periodic or current reports under the Exchange Act.

**Item 2. Properties**

AIG and its subsidiaries operate from approximately 1,730 offices in the United States, 54 in Puerto Rico, 7 in Canada and numerous offices in over 100 foreign countries. The offices in Greensboro and Winston-Salem, North Carolina; Amarillo, Ft. Worth and Houston, Texas; Wilmington, Delaware; San Juan, Puerto Rico; Livingston, New Jersey; Terre Haute and Evansville, Indiana; Nashville, Tennessee; Stevens Point, Wisconsin; Barstow and Riverside, California; 175 Water Street in New York, New York; and offices in more than 30 foreign countries and jurisdictions including Bermuda, Chile, Hong Kong, the Philippines, Japan, the U.K., Singapore, Malaysia, Taiwan and Thailand are located in buildings owned by AIG and its subsidiaries. The remainder of the office space utilized by AIG and its subsidiaries is leased.

**Item 3. Legal Proceedings**

For a discussion of legal proceedings, see Note 15(a) to the Consolidated Financial Statements, which is incorporated herein by reference.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of security holders during the fourth quarter of 2009.

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**Part II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

AIG Common Stock is listed on the New York Stock Exchange, as well as on the stock exchanges in Ireland and Tokyo.

The following table presents the high and low closing sale prices on the New York Stock Exchange Composite Tape and the dividends paid per share of AIG Common Stock for each quarter of 2009 and 2008, in all cases, as adjusted for the reverse common stock split:

	2009			2008		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First quarter	\$ 34.80	\$ 7.00	\$ -	\$ 1,186.40	\$ 796.00	\$4.00
Second quarter	40.20	21.00	-	980.80	529.20	4.00
Third quarter	50.23	9.48	-	602.00	41.00	4.40
Fourth quarter	45.90	28.06	-	80.00	27.00	-

The approximate number of record holders of common stock as of January 29, 2010 was 56,028.

Under the FRBNY Credit Facility, AIG is restricted from paying dividends on the AIG Common Stock. Moreover, pursuant to terms of each of the AIG Series E Preferred Stock and AIG Series F Preferred Stock, AIG is not able to declare or pay any cash dividends on the AIG Common Stock or on any AIG preferred stock ranking junior to such series of preferred stock for any period until dividends on each of the AIG Series E Preferred Stock and AIG Series F Preferred Stock have been paid for such period. AIG has not paid dividends on the AIG Series E Preferred Stock and AIG Series F Preferred Stock outstanding in 2009 and no dividends have been paid on the AIG Common Stock since the third quarter of 2008. In addition, AIG did not pay any dividends on the AIG Series D Preferred Stock while it was outstanding.

For a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries, see Item 1A. Risk Factors Liquidity AIG parent's ability to access funds from its subsidiaries is limited, and Note 16 to the Consolidated Financial Statements.

AIG's table of equity compensation plans previously approved by security holders and equity compensation plans not previously approved by security holders will be included in the definitive proxy statement for AIG's 2010 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the close of AIG's fiscal year pursuant to Regulation 14A.

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**Performance Graph**

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2004 to December 31, 2009) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies consisting of nine insurance companies to which AIG compares its business and operations: ACE Limited, Aflac Incorporated, The Chubb Corporation, The Hartford Financial Services Group, Inc., Lincoln National Corporation, MetLife, Inc., Prudential Financial, Inc., The Travelers Companies, Inc. and XL Capital Ltd.

**FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURNS**  
**Value of \$100 Invested on December 31, 2004**

	As of December 31,					
	2004	2005	2006	2007	2008	2009
AIG	\$ 100.00	\$ 104.85	\$ 111.19	\$ 91.47	\$ 2.66	\$ <b>2.54</b>
S&P 500	100.00	104.91	121.48	128.16	80.74	<b>102.11</b>
Peer Group	100.00	122.98	142.29	148.63	86.00	<b>100.36</b>



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### Item 6. Selected Financial Data

The Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying notes included elsewhere herein.

Years Ended December 31,  
(in millions, except per share data)

	2009 <sup>(a)</sup>	2008 <sup>(a)</sup>	2007 <sup>(a)</sup>	2006 <sup>(a)</sup>	2005 <sup>(a)</sup>
<b>Revenues<sup>(b)</sup>:</b>					
Premiums and other considerations	\$ 64,702	\$ 78,564	\$ 74,753	\$ 69,565	\$ 65,588
Net investment income	25,239	11,433	30,051	27,612	24,480
Net realized capital gains (losses)	(6,854)	(52,705)	(3,501)	62	601
Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio	1,418	(28,602)	(11,472)	-	-
Other income	11,499	(1,794)	13,801	9,687	12,060
Total revenues	96,004	6,896	103,632	106,926	102,729
<b>Benefits, claims and expenses:</b>					
Policyholder benefits and claims incurred	61,436	58,839	62,452	57,052	60,834
Policy acquisition and other insurance expenses <sup>(c)</sup>	20,674	26,284	19,819	19,003	17,310
Interest expense <sup>(d)</sup>	15,369	17,007	4,751	3,657	2,572
Restructuring expenses and related asset impairment and other expenses	1,386	804	-	-	-
Net loss on sale of divested businesses	1,271	-	-	-	-
Other expenses <sup>(c)</sup>	9,516	10,490	8,476	6,224	7,143
Total benefits, claims and expenses	109,652	113,424	95,498	85,936	87,859
Income (loss) from continuing operations before income tax expense (benefit) and cumulative effect of change in accounting principles <sup>(b)(e)(f)</sup>	(13,648)	(106,528)	8,134	20,990	14,870
Income tax expense (benefit) <sup>(g)</sup>	(1,878)	(8,894)	1,267	6,368	4,224
Income (loss) from continuing operations before cumulative effect of change in accounting principles	(11,770)	(97,634)	6,867	14,622	10,646
Income (loss) from discontinued operations, net of tax	(543)	(2,753)	621	528	309
Net income (loss)	(12,313)	(100,387)	7,488	15,150	10,955
Net income (loss) attributable to AIG	(10,949)	(99,289)	6,200	14,048	10,477
<b>Earnings per common share attributable to AIG:</b>					
<b>Basic</b>					
Income (loss) from continuing operations before cumulative effect of change in accounting principles	(86.30)	(737.12)	43.40	103.60	78.43
Income (loss) from discontinued operations	(4.18)	(19.73)	4.58	3.87	2.26
Cumulative effect of change in accounting principles, net of tax	-	-	-	0.26	-
Net income (loss) attributable to AIG	(90.48)	(756.85)	47.98	107.73	80.69
<b>Diluted</b>					
Income (loss) before cumulative effect of change in accounting principles	(86.30)	(737.12)	43.17	103.07	77.63
Income (loss) from discontinued operations	(4.18)	(19.73)	4.56	3.85	2.23
Cumulative effect of change in accounting principles, net of tax	-	-	-	0.26	-
Net income (loss) attributable to AIG	(90.48)	(756.85)	47.73	107.18	79.86
Dividends declared per common share	-	8.40	15.40	13.00	12.60
<b>Year-end balance sheet data:</b>					
Total investments	601,165	636,912	829,468	767,812	665,166



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Total assets	<b>847,585</b>	860,418	1,048,361	979,414	851,847
Commercial paper and other short-term debt <sup>(h)</sup>	<b>4,739</b>	15,718	13,114	13,028	9,208
Long-term debt <sup>(i)</sup>	<b>136,733</b>	177,485	162,935	135,650	100,641
Total AIG shareholders' equity	<b>69,824</b>	52,710	95,801	101,677	86,317
Total equity	<b>\$ 98,076</b>	\$ 60,805	\$ 104,273	\$ 107,037	\$ 90,076

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- (a) *Certain reclassifications have been made to prior period amounts to conform to the current period presentation. See Note 1 to the Consolidated Financial Statements.*
- (b) *In 2009, 2008, 2007, 2006, and 2005, includes other-than-temporary impairment charges on investments of \$7.8 billion, \$48.6 billion, \$4.6 billion, \$912 million, and \$572 million, respectively. Also 2009, 2008, 2007, 2006 and 2005 results include gains (losses) from hedging activities that did not qualify for hedge accounting treatment, including the related foreign exchange gains and losses, of \$1.2 billion, \$(3.7) billion, \$(1.4) billion, \$(1.9) billion, and \$2.4 billion, respectively, in revenues and in income from continuing operations before income tax expense. These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.*
- (c) *Includes goodwill impairment charges of \$81 million and \$3.3 billion, respectively, in Policy acquisition and other insurance expenses and \$612 million and \$791 million, respectively, in Other expenses for 2009 and 2008.*
- (d) *In 2009 and 2008, includes \$10.4 billion and \$11.4 billion, respectively, of interest expense on the FRBNY Credit Facility which was comprised of \$8.4 billion and \$9.3 billion, respectively, of amortization on the prepaid commitment fee asset associated with the FRBNY Credit Facility and \$2.0 billion and \$2.1 billion, respectively, of accrued compounding interest.*
- (e) *Includes catastrophe-related losses of \$53 million in 2009, \$1.8 billion in 2008, \$276 million in 2007, and \$3.28 billion in 2005.*
- (f) *Reduced by fourth quarter charges of \$2.3 billion in 2009 and \$1.8 billion in 2005 related to the annual review of General Insurance loss and loss adjustment reserves. In 2006 and 2005, includes charges related to changes in estimates for asbestos and environmental reserves of \$198 million, and \$873 million, respectively.*
- (g) *In 2008, includes a \$20.6 billion valuation allowance to reduce AIG's deferred tax asset to an amount AIG believes is more likely than not to be realized, and a \$4.8 billion deferred tax expense attributable to the potential sale of foreign businesses. In 2009, includes a \$2.9 billion valuation allowance to reduce AIG's deferred tax asset to an amount AIG believes is more likely than not to be realized.*
- (h) *Includes borrowings of \$2.7 billion and \$2.0 billion for AIGFP (through Curzon Funding LLC, AIGFP's asset-backed commercial paper conduit) and AIG Funding, respectively, under the CPFF at December 31, 2009 and \$6.8 billion, \$6.6 billion and \$1.7 billion for AIGFP (through Curzon Funding LLC), AIG Funding and ILFC, respectively, at December 31, 2008.*
- (i) *Includes that portion of long-term debt maturing in less than one year. See Note 14 to the Consolidated Financial Statements.*

See Note 1(y) to the Consolidated Financial Statements for effects of adopting new accounting standards.

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**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, AIG presents its operations in the way it believes will be most meaningful. Underwriting profit (loss) is utilized to report results for AIG's General Insurance operations and pre-tax income (loss) before net realized capital gains (losses) is utilized to report result for AIG's life insurance and retirement services operations as these measures enhance the understanding of the underlying profitability of the ongoing operations of these businesses and allow for more meaningful comparisons with AIG's insurance competitors. AIG has also incorporated into this discussion a number of cross-references to additional information included throughout this Annual Report on Form 10-K to assist readers seeking additional information related to a particular subject.

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**Cautionary Statement Regarding Forward-Looking Information**

This Annual Report on Form 10-K and other publicly available documents may include, and AIG's officers and representatives may from time to time make, projections and statements which may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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 outcome of the completed transactions with the Federal Reserve Bank of New York (FRBNY) and the United States Department of the Treasury (Department of the Treasury);



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the number, size, terms, cost, proceeds 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);

AIG's long-term business mix which will depend on the outcome of AIG's asset disposition program;

AIG's exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets;

the separation of AIG's businesses from AIG parent company;

AIG's ability to retain and motivate its employees; and

AIG's strategy for customer retention, growth, product development, market position, financial results and reserves.

It is possible that AIG's actual results and financial condition will 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 include:

a failure to close transactions contemplated in AIG's restructuring plan;

developments in global credit markets; and

such other factors as discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations and in Item 1A. Risk Factors of this Annual Report on Form 10-K.

AIG is not under any obligation (and expressly disclaims any obligation) 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.

### **Executive Overview**

AIG reports the results of its operations through four reportable segments: General Insurance, Domestic Life Insurance & Retirement Services, Foreign Life Insurance & Retirement Services, and Financial Services. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations and net gains (losses) on sales of divested businesses because AIG believes that this provides more meaningful information on how its operations are performing.

**General Insurance** branded as Chartis in July 2009, is comprised of multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad.

**Domestic Life Insurance & Retirement Services** branded as SunAmerica Financial Group in December 2009, AIG's Domestic Life Insurance businesses offer a broad range of protection products, including individual term and universal life insurance, and group life and health products. In addition, Domestic Life Insurance offers a variety of payout annuities, which include single premium immediate annuities, structured settlements and terminal funding annuities. Domestic Retirement Services businesses offer group retirement products and individual fixed and variable annuities. Certain

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previously acquired closed blocks and other fixed and variable annuity blocks that have been discontinued are reported as "runoff" annuities. Domestic Retirement Services also maintains a runoff block of Guaranteed Investment Contracts (GICs) that were written in (or issued to) the institutional market place prior to 2006.

**Foreign Life Insurance & Retirement Services** provides 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.

**Financial Services** engages in diversified activities, including commercial aircraft and equipment leasing, capital markets operations, consumer finance and insurance premium financing, both in the United States and abroad.

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With the announced sale of AIG's investment advisory and third party Institutional Asset Management business (excluding the Global Real Estate investment management business), AIG will no longer benefit from the management fee and carried interest cash flows from these businesses, but the sale will reduce operating costs related to AIG's asset management activities. Asset Management is no longer considered a reportable segment, and the results for the Institutional Asset Management businesses and the Matched Investment Program (MIP), which is in run-off, are presented as a Noncore business in AIG's Other operations category. In addition, results for certain brokerage service, mutual fund, GIC and other asset management activities previously reported in the Asset Management segment are now included in the Domestic Life Insurance & Retirement Services segment. Results for prior periods have been revised accordingly.

AIG has entered into several important transactions and relationships with the FRBNY, the AIG Credit Facility Trust (together with its trustees, acting in their capacity as trustees, the Trust) and the Department of the Treasury. As a result of these arrangements, AIG is controlled by the Trust, which was established for the sole benefit of the United States Treasury.

Since September 2008, AIG has been working to protect and enhance the value of its key businesses, execute an orderly asset disposition plan, and position itself for the future.

The discussion that follows should be read in conjunction with the Consolidated Financial Statements and accompanying notes included elsewhere herein.

### Priorities for 2010

AIG is focused on the following priorities for 2010:

continued stabilization and strengthening of AIG's businesses;

realize additional progress in restructuring and asset disposition initiatives to enable repayment of amounts outstanding under the FRBNY Credit Facility provided by the FRBNY under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Agreement), between AIG and the FRBNY;

execute plans to realize value from dispositions of interests in American International Assurance Company, Ltd. (AIA) and American Life Insurance Company (ALICO);

further wind-down of AIG's exposure to certain financial products and derivatives trading activities; and

address funding needs of International Lease Finance Corporation (ILFC) and American General Finance, Inc. (AGF) and explore alternative restructuring opportunities.

### 2009 Financial Overview

Global financial markets continued their recovery in the second half of 2009, as investors returned to equity and bond markets. This optimism, not yet accompanied by a robust economic recovery, produced a strong rally in bond, equity and commodity markets. Cash accumulated by investors in 2008 and early 2009 continued to flow out of short-term money market accounts and into higher yielding assets, creating investment demand in excess of available new supply in many sectors. While securitized mortgage products participated to a degree in the rally, particularly in desirable tranches of well-collateralized transactions, the commercial mortgage and equity real estate sectors continue to lag.

The improved market environment noted above contributed to the substantial reduction in the loss from continuing operations before income taxes, which declined to \$13.6 billion in 2009 compared to \$106.5 billion in 2008. The following significant drivers also contributed to this improvement:

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the 2008 period included non-credit impairments (i.e., severity losses) throughout the year that are no longer required for fixed maturity securities due to the adoption of the new other-than-temporary impairments accounting standard commencing in the second quarter of 2009. Additionally, other-than-temporary



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impairments declined from the 2008 period due to improved market conditions. See Note 6 to the Consolidated Financial Statements; and Investments Other-Than-Temporary Impairments;

unrealized market valuation gains of \$1.4 billion in 2009 related to AIGFP's super senior credit default swap portfolio compared to unrealized market valuation losses of \$28.6 billion in 2008 due to the substantial decline in outstanding net notional amount resulting from the termination of contracts in the fourth quarter of 2008 associated with the Maiden Lane III transaction (ML III) as well as the narrowing of corporate credit spreads. See Note 6 to the Consolidated Financial Statements; and

a \$3.4 billion decline in goodwill impairment charges.

Additionally, the net loss in 2009 decreased due to \$25.4 billion of deferred tax expense recorded in 2008 associated with the potential sale of foreign businesses and valuation allowances.

### **Fourth Quarter 2009 Net Loss**

AIG incurred a net loss attributable to AIG of \$8.9 billion during the fourth quarter of 2009. This loss resulted primarily from the following:

total FRBNY interest and amortization expense of \$6.2 billion (\$4.0 billion after tax), including accelerated amortization of \$5.2 billion (\$3.4 billion after tax) in connection with the \$25 billion reduction in outstanding balance and maximum lending commitment under the FRBNY Credit Facility as a result of the issuance of preferred interests;

a loss recognized on the pending sale of Nan Shan of \$2.8 billion (\$1.5 billion after tax), reported in discontinued operations;

increases in Commercial Insurance loss reserves on certain long-tail casualty classes of business totaling \$2.3 billion (\$1.5 billion net of tax); and

a valuation allowance change of \$2.7 billion for tax benefits not presently recognizable, including those shown above.

For a complete discussion of financial results, see Consolidated Results and Segment Results.

### 2010 Business Outlook

During 2009, AIG took steps to prepare AIA and ALICO for possible divestiture in initial public offerings or by third party sale, depending on market conditions and subject to customary regulatory approvals. In furtherance of that goal, the Hong Kong Stock Exchange was chosen as the listing venue for any initial public offering of AIA, and AIG has been in discussions with a third party regarding the potential sale of ALICO. The final determination on divestiture strategies for these companies remains subject to AIG Board approval and market conditions. A sale of ALICO, which is a component of the Japan & Other reporting unit, would require AIG to assess whether any of the \$4.7 billion of goodwill associated with the reporting unit was impaired. See Critical Accounting Estimates Goodwill Impairment for a discussion of management's approach to testing goodwill for impairment.

AIG's strategy going forward is to focus on its leading global general insurance business and its domestic and certain foreign life insurance and retirement services businesses, while at the same time addressing liquidity and risk issues within the Financial Services segment.

AIG has completed several transactions with the FRBNY and continues to execute its plans for repaying the FRBNY Credit Facility. AIG has incurred, and may continue to incur, significant additional restructuring-related charges, such as additional accelerated amortization expense related to the prepaid commitment asset and additional material write-offs of deferred taxes, goodwill and other long-lived assets.

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Continued difficult market conditions have caused a decline in the value of certain private equity and real estate assets held for investment purposes, resulting in impairment charges. The persistence of the troubled global economy driven by tight credit markets and high unemployment will likely continue to adversely affect pre-tax income in future

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periods. Management continues to assess value declines and the permanence of such declines. These market conditions have also adversely affected the ability to pay or refinance maturing debt obligations in the private equity and real estate portfolios.

On June 10, 2009, the Department of the Treasury issued regulations implementing the compensation limits of the American Recovery and Reinvestment Act of 2009. These regulations restrict the amount of bonus and other incentive compensation that a company receiving TARP funds may pay to certain employees. For AIG these limits apply to the five executives named in AIG's proxy statement and the next twenty highest paid employees of AIG (the Top 25). The regulations also created the Office of Special Master for TARP Executive Compensation (Special Master), which is responsible for interpreting and applying the compensation regulations. AIG is required to obtain the Special Master's approval of the compensation of the Top 25, and the compensation structure of AIG's executive officers and AIG's next 26 to 100 most highly compensated employees and executive officers (the Top 100). The Special Master has issued Determination Memoranda covering the Top 25 and Top 100. These Determination Memoranda place significant new conditions on the compensation of these employees, and the conditions in the Determination Memoranda may impair AIG's ability to retain and motivate them. See Item 1A. Risk Factors Employees for a further discussion of this risk.

### **General Insurance**

Given current insurance capital levels and the relatively benign 2009 catastrophe season, the overall expectation is that both property and casualty market pricing will continue to decline in 2010. While rate change has become more stable in recent quarters, Chartis does not expect this trend to continue in 2010. In addition, overall economic conditions have decreased the volume of ratable exposures (i.e., asset values, payrolls and sales), which has had a corresponding negative impact on overall market premium base. Given these factors, AIG expects organic modest gross and net premium growth in 2010, driven by growth in Foreign General Insurance.

In 2010, Chartis expects to continue to execute capital management initiatives begun in 2009 by enhancing its Enterprise Risk Management function; developing broad-based risk appetite guidelines for its operating units; and executing underwriting and reinsurance strategies to improve capital ratios, increase return on equity by line of business and reduce exposure to certain businesses where inadequate pricing and increased loss trends may exist.

Chartis U.S. expects overall gross written premiums to remain consistent with 2009 levels. However, its business mix is expected to continue to change, reflecting capital management initiatives. Net written premiums may decline as Chartis U.S. modifies its reinsurance program to be consistent with its capital management initiatives.

Gross written premiums for Chartis International are expected to grow more substantially in 2010, due in large part to its existing presence in emerging markets and its anticipated increased stake in The Fuji Fire & Marine Insurance Company Limited which would require consolidation of its operations into AIG.

### **Domestic Life Insurance & Retirement Services**

AIG expects sales and deposits to gradually recover in 2010-2011 as market conditions improve, AIG ratings remain stable, negative AIG publicity subsides, rebranding efforts take hold and distribution is reinstated at additional financial institutions.

Domestic Life Insurance & Retirement Services companies maintained higher liquidity in 2008 and 2009 which negatively affected net investment income results. As such cash balances are reinvested into longer term securities in 2010-2011, AIG expects investment yields to gradually improve.

### **Foreign Life Insurance & Retirement Services**

AIG expects that sales of foreign life investment-oriented products will continue to be lower than historic levels due to the lingering negative effects of AIG events on third party financial institution distribution networks, primarily in Japan and the U.K. and that sales of risk-based insurance products will continue to improve, particularly in Asia.



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AIA and ALICO have experienced improved operating conditions and are expected to continue to improve as the rebranding initiatives and revitalization of their agency and direct marketing distribution networks continues.

### **Financial Services**

### **Capital Markets**

AIGFP continued unwinding its businesses and portfolios during 2009, and these activities are expected to continue in 2010. During 2009, AIGFP reduced the notional amount of its derivative portfolio by 41 percent, from \$1.6 trillion at December 31, 2008 to \$940.7 billion at December 31, 2009. AIGFP reduced the number of its outstanding trade positions by approximately 18,900, from approximately 35,000 at December 31, 2008 to approximately 16,100 at December 31, 2009. In connection with these activities, AIGFP has disaggregated its portfolio of existing transactions into a number of separate "books" and has developed a plan for addressing each book, including assessing each book's risks, risk mitigation options, monitoring metrics and certain implications of various potential outcomes. Each plan has been reviewed by a steering committee whose membership includes senior executives of AIG. The plans are subject to change as efforts progress and as conditions in the financial markets evolve, and they contemplate, depending on the book in question, alternative strategies, including sales, assignments or other transfers of positions, terminations of positions, and/or run-offs of positions in accordance with existing terms. Execution of these plans is overseen by a transaction approval process involving senior members of AIGFP's and AIG's respective management groups as specific actions entail greater liquidity and financial consequences. Successful execution of these plans is subject, to varying degrees depending on the transactions of a given book, to market conditions and, in many circumstances, counterparty negotiation and agreement.

As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. AIGFP has already reduced the size of certain portions of its portfolio, including effecting a substantial reduction in credit derivative transactions in respect of multi-sector collateralized debt obligations (CDOs) in connection with ML III, a sale of its commodity index business, termination and sale of its activities as a foreign exchange prime broker, and sale and other disposition of its energy/infrastructure investment portfolio.

Due to the long-term duration of many of AIGFP's derivative contracts and to the complexity of AIGFP's portfolio, AIG expects that an orderly wind-down will take a substantial period of time. The cost of executing the wind-down will depend on many factors, many of which are not within AIGFP's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades. In addition, the Determination Memorandum issued by the Special Master places significant new restrictions on the compensation of AIGFP employees included in the Top 25 and Top 100 and may impair AIGFP's ability to retain these employees and negatively impact the wind-down of AIGFP's business.

### **ILFC**

Given the current market conditions and ILFC's current limited access to unsecured debt markets, new aircraft purchases may be limited for the foreseeable future. In addition, these market conditions are creating downward pressures that are slowing the growth of ILFC's operating margins. ILFC is currently seeking secured financing and is exploring sales of aircraft portfolios to investors to meet its financial and operating obligations. These secured financings will increase ILFC's composite interest rate, which will put further downward pressure on its operating margins, and any aircraft sales would likely result in a loss, which, depending on the size and composition of the portfolio, could be significant. In addition, sales of large portfolios of aircraft will likely increase the average age of ILFC's fleet and impact future operating margins.

If ILFC's sources of liquidity are not sufficient to meet its contractual obligations as they become due over the next twelve months, ILFC will seek additional funding from AIG, which funding would be subject to AIG receiving the consent of the FRBNY.

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### **AGF**

Since the events of September 2008, AGF's traditional borrowing sources, including its ability to issue unsecured debt in the capital markets, have remained unavailable, and AGF does not expect them to become available in the near future. AGF's liquidity concerns, dependency on AIG, results of its operations and the uncertainty regarding the availability of support from AIG have negatively impacted its credit ratings.

In addition to finance receivable collections, AGF is exploring additional initiatives to meet its financial and operating obligations. These initiatives include additional on-balance sheet securitizations, portfolio sales, and expense reductions. During 2009, AGF closed 200 branch offices, reduced retail sales financing operations, reduced its number of employees by approximately 1,400 through reductions in force and attrition, and sold \$1.9 billion of finance receivables held for sale. In July 2009, AGF securitized \$1.9 billion of real estate loans and received \$967 million in cash proceeds.

If AGF's sources of liquidity are not sufficient to meet its contractual obligations as they become due over the next twelve months, AGF will seek additional funding from AIG, which funding would be subject to AIG receiving the consent of the FRBNY.

### Significant Events in 2009

#### **Consummation of the AIA and ALICO SPV Transactions**

On December 1, 2009, AIG and the FRBNY completed two transactions pursuant to which AIG transferred to the FRBNY noncontrolling, nonvoting, callable, preferred equity interests (Preferred Interests) in two newly-formed special purpose vehicles (SPVs) in exchange for a \$25 billion reduction of the balance outstanding and the maximum credit available under the FRBNY Credit Facility, which resulted in \$5.2 billion of accelerated amortization of a portion of the prepaid commitment asset. Each SPV has (directly or indirectly) as its only asset 100 percent of the common stock of an operating subsidiary (AIA in one case and ALICO in the other). AIG owns all of the voting common equity interests of each SPV. AIG's purpose for entering into these agreements was to position AIA and ALICO for initial public offerings or third-party sale, depending on market conditions and subject to customary regulatory approvals. An equally important objective of the transactions was to enhance AIG's capitalization consistent with rating agency requirements in order to complete its restructuring plan and repay the support it has received from the FRBNY and the Department of the Treasury. The Preferred Interests are redeemable at the option of AIG and are transferable at the FRBNY's discretion. In the event the board of managers of either SPV initiates a public offering, liquidation or winding up or a voluntary sale, the proceeds must be distributed to the Preferred Interests until the Preferred Interests' redemption value has been paid. The redemption value of the Preferred Interests is the liquidation preference, which includes any undistributed preferred returns through the redemption date, and the amount of distributions that the Preferred Interests would receive in the event of a 100 percent distribution to all the common and Preferred Interest holders at the redemption date.

The Preferred Interests entitle the FRBNY to veto rights over certain significant actions by the SPVs and provide the FRBNY with certain rights including the right to compel the SPVs to use their best efforts to take certain actions, including an initial public offering or a sale of the SPVs or the businesses held by the SPVs. After December 1, 2010, and prior thereto with the concurrence of the trustees of Trust, the FRBNY can compel the holders of the common interests to sell those interests should the FRBNY decide to sell its preferred interests. Following an initial public offering, the FRBNY will have the right to exchange its Preferred Interests for common shares of the publicly-traded entity.

The Preferred Interests in the AIA SPV have an initial liquidation preference of \$16 billion and have the right to a preferred return of five percent per year compounded quarterly through September 22, 2013 and nine percent thereafter. If the preferred return is not distributed, the amount is added to the Preferred Interests' liquidation preference. The AIA Preferred Interests participate in one percent of net income after the preferred return. The AIA Preferred Interests are also entitled to a one percent participation right of any residual value after (i) the AIA preferred return, (ii) the participation right of one percent of AIA's net income, (iii) the liquidation preference on all Preferred Interests has been paid and (iv) the holders of the common interests (currently AIG) have received,

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including any ordinary course distributions, the sum of (i) \$9 billion and (ii) the amount of any additional capital contributions other than the initial capital contribution. AIG is entitled to receive 99 percent of the remaining residual value from the disposition of AIA by the SPV.

The Preferred Interests in the ALICO SPV consist of senior and junior preferred interests with liquidation preferences of \$1 billion and \$8 billion, respectively. The junior and senior preferred interests have a preferred return of five percent per year compounded quarterly through September 22, 2013 and nine percent thereafter. If the preferred return is not distributed, the amount is added to the Preferred Interests' liquidation preference. The junior preferred interests participate in five percent of any residual value after the liquidation preference and the preferred return for the then-current quarter on the senior and junior preferred interests have been paid and the holders of the common interests (currently AIG) have received, including any ordinary course distributions, the sum of (i) \$6 billion and (ii) the amount of any additional capital contributions other than the initial capital contribution. The senior preferred interests do not have a participating return. AIG is entitled to receive 95 percent of the remaining residual value from the disposition of ALICO by the SPV. See Note 16 to the Consolidated Financial Statements for further discussion.

**Exchange of AIG Series D Preferred Stock for AIG Series E Preferred Stock**

On April 17, 2009, AIG entered into a Securities Exchange Agreement (the AIG Series E Exchange Agreement) with the Department of the Treasury pursuant to which, among other things, the Department of the Treasury exchanged 4,000,000 shares of AIG's Series D Fixed Rate Cumulative Perpetual Preferred Stock, par value \$5.00 per share (AIG Series D Preferred Stock), for 400,000 shares of AIG's Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value \$5.00 per share (AIG Series E Preferred Stock). See Note 16 to the Consolidated Financial Statements for further discussion.

**Department of the Treasury Commitment**

On April 17, 2009, AIG entered into a Securities Purchase Agreement with the Department of the Treasury, pursuant to which (i) AIG issued to the Department of the Treasury (a) 300,000 shares of AIG Series F Preferred Stock, and (b) the warrant (AIG Series F Warrant) to purchase 150 shares of AIG common stock, par value \$2.50 per share, and (ii) the Department of the Treasury agreed to provide up to \$29.835 billion (the Department of the Treasury Commitment) in exchange for increases in the liquidation preference of the AIG Series F Preferred Stock. See Note 16 to the Consolidated Financial Statements for further discussion.

**Modification of FRBNY Credit Facility**

On April 17, 2009, AIG and the Board of Governors of the Federal Reserve System entered into an Amendment No. 3 to the FRBNY Credit Agreement. The FRBNY Credit Agreement was amended, among other things, to remove the minimum 3.5 percent LIBOR borrowing rate floor, and permit the issuance by AIG of the AIG Series E Preferred Stock, the AIG Series F Preferred Stock and the AIG Series F Warrant to the Department of the Treasury.

On December 1, 2009, AIG and the FRBNY entered into an Amendment No. 4 to the FRBNY Credit Agreement in order to, among other things:

provide for the consummation of the AIA and ALICO transactions with the FRBNY; and

reduce the outstanding balance of the FRBNY Credit Agreement and the maximum amount available to be borrowed thereunder by \$25 billion.

**Issuance of AIG Series C Preferred Stock**

On March 4, 2009, AIG issued to the Trust 100,000 shares of AIG's Series C Perpetual, Convertible, Participating Preferred Stock, par value \$5.00 per share (AIG Series C Preferred Stock), pursuant to the Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement, dated as of March 1, 2009 (the AIG Series C Purchase Agreement), between the Trust and AIG, for an aggregate purchase price of \$500,000, with an





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understanding that additional and independently sufficient consideration was also furnished to AIG by the FRBNY Credit Facility under the FRBNY Credit Agreement.

See Note 1 to the Consolidated Financial Statements for further information on the transactions in the proceeding paragraphs and Note 16 to the Consolidated Financial Statements for information on additional transactions completed in 2009.

### **Life Insurance Securitizations**

The previously contemplated life insurance securitization transaction with the FRBNY is no longer being pursued by AIG.

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

In connection with the preparation of this Annual Report on Form 10-K, management has assessed whether AIG has the ability to continue as a going concern (See Note 1 to the Consolidated Financial Statements). In making this assessment, AIG has considered:

The commitment of the U.S. government to continue to work with AIG to maintain its ability to meet its obligations as they come due;

AIG's liquidity-related actions and plans to stabilize its businesses and repay the debt outstanding under the FRBNY Credit Facility;

The level of AIG's realized and unrealized losses and the negative impact of these losses in shareholders' equity and on the capital levels of AIG's insurance subsidiaries;

The additional capital provided or committed through the Department of the Treasury Commitment;

The completion on December 1, 2009 of the transactions contemplated by Purchase Agreement between AIG, AIRCO and the FRBNY dated June 25, 2009 (AIA Purchase Agreement) and the Purchase Agreement between AIG and the FRBNY dated June 25, 2009 (ALICO Purchase Agreement);

The planned sales of significant subsidiaries;

The continuing liquidity issues in certain of AIG's businesses and AIG's actions to address such issues; and

The substantial risks to which AIG is subject.

In considering these items, management made significant judgments and estimates with respect to the potentially adverse financial and liquidity effects of AIG's risks and uncertainties. Management 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 prove to be materially incorrect. If one or more

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of these possible outcomes is realized, AIG may need additional U.S. government support to meet its obligations as they come due. If additional support is not available in such circumstances, there could be substantial doubt about AIG's ability to operate as a going concern.

### **Capital Resources and Liquidity**

#### Liquidity

#### **FRBNY Credit Facility**

At February 17, 2010, AIG had outstanding net borrowings under the FRBNY Credit Facility of \$21 billion, with a remaining available amount of \$14 billion, and accrued compounding interest and fees of \$5.5 billion. As a result of

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the AIA and ALICO transactions on December 1, 2009, there was a \$25 billion reduction in the outstanding balance of the FRBNY Credit Facility and the maximum amount available to be borrowed thereunder. The net borrowings as of December 31, 2009 and February 17, 2010 were reduced by \$1.6 billion of loans extended from AGF to AIG. AIG expects that these loans will be repaid to support AGF's liquidity as needed. Net borrowings under the FRBNY Credit Facility increased by approximately \$3.1 billion from December 31, 2009 to February 17, 2010, with these proceeds primarily used to repay \$3.5 billion of commercial paper outstanding under the FRBNY Commercial Paper Funding Facility (CPFF) for AIG Funding and Curzon Funding LLC.

**The following table summarizes net borrowings outstanding and remaining available amount that can be borrowed under the FRBNY Credit Facility:**

	Inception Through December 31, 2009	December 31, 2008	Increase (Decrease)
Net borrowings:			
Loans to AIGFP for collateral postings, GIA and other debt maturities	\$ 50,605	\$ 46,997	\$ 3,608
AIGFP repayments to AIG	(8,903)	(4,093)	(4,810)
Capital contributions and loans to insurance companies <sup>(a)</sup>	23,329	20,850	2,479
Repayment of obligations to securities lending program	3,160	3,160	
Repayment of intercompany loans	1,528	1,528	
Contributions to AIGCFG subsidiaries <sup>(b)</sup>	222	1,672	(1,450)
Loans to ILFC	3,900		3,900
Debt payments	5,448	2,109	3,339
Issuance of preferred interests in AIA LLC and ALICO LLC	(25,000)		(25,000)
Funding of equity interest in ML III	5,000	5,000	
Repayment from the proceeds of the issuance of AIG Series D Preferred Stock and common stock warrant	(40,000)	(40,000)	
Other <sup>(c)</sup>	(1,389)	(423)	(966)
Net borrowings	17,900	36,800	(18,900)
Total FRBNY Credit Facility	35,000	60,000	(25,000)
Remaining available amount	17,100	23,200	(6,100)
Net borrowings	17,900	36,800	(18,900)
Accrued compounding interest and fees <sup>(d)</sup>	5,535	3,631	1,904
Total balance outstanding	\$ 23,435	\$ 40,431	\$ (16,996)

(a) Includes securities lending activities.

(b) Includes repayments and sales of subsidiaries.

(c) Includes repayments with proceeds from the CPFF, tax refunds, loans from AGF to AIG discussed above and drawdowns under the Department of the Treasury Commitment, which had not yet been utilized.

(d)

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*Excludes interest payable of \$2 million and \$8 million at December 31, 2009 and 2008, respectively, which was included in Other liabilities.*

### **Department of the Treasury Commitment**

The Department of the Treasury Commitment allows AIG to draw down funds in exchange for increases in the liquidation preference of the AIG Series F Preferred Stock. See Note 16 to the Consolidated Financial Statements for further discussion.

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**The following table summarizes drawdown activity and amount remaining available under the Department of the Treasury Commitment:**

(in millions)	Inception Through December 31, 2009*
<b>Drawdowns:</b>	
Capital contributions to insurance companies	\$ 1,389
Intercompany purchase of ILFC equity ownership	2,722
UGC related restructuring transactions	1,132
Temporary paydown of FRBNY Credit Facility	101
 Total drawdowns	 5,344
Original availability under commitment	29,835
 Remaining available amount	 \$ 24,491

\*

*From January 1, 2010 through February 17, 2010, AIG had requested a draw down of an additional \$2.2 billion under the Department of the Treasury Commitment principally to improve the risk-based capital ratios of its General Insurance subsidiaries by redeeming securities of affiliates held by those subsidiaries.*

Additional details regarding liquidity sources are included in Liquidity of Parent and Subsidiaries below.

### **AIG's Strategy for Stabilization and Repayment of its Obligations as They Come Due**

#### **Future Cash Requirements**

AIG expects that the repayment of future debt maturities and the payment of the preferred returns and liquidation preference on the Preferred Interests will be its primary uses of available cash. The net proceeds from any sale, initial public offering or other monetization of AIA and ALICO will first be used to pay the Preferred Interests.

**The following table summarizes the maturing debt of AIG and its subsidiaries for the next four quarters:**

(in millions)	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010	Total
ILFC	\$ 738	\$ 1,476	\$ 2,052	\$ 2,492	\$ 6,758
AGF *	729	573	5,142	106	6,550
AIG Matched Investment Program	500		897	834	2,231
AIGFP	924	460	273	246	1,903
AIG	889			500	1,389
Other	36	25	516	24	601
 Total	 \$ 3,816	 \$ 2,534	 \$ 8,880	 \$ 4,202	 \$ 19,432

\*

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*American General Finance, Inc. On July 9, 2009, AGF converted the \$2.45 billion of loans that it had previously drawn on its 364-Day Syndicated Facility into one-year term loans. AIG has provided a capital support agreement for the benefit of the lenders of these termed-out loans, which must be repaid by July 9, 2010.*

AIG's plans for meeting these maturing obligations are as follows:

ILFC's sources of liquidity available to meet these needs include future cash flows from operations, aircraft sales, and potentially additional secured financing arrangements (see Liquidity of Parent and Subsidiaries below). If ILFC does not receive sufficient secured financing, AIG expects that ILFC's current borrowings and future cash flows from operations, including aircraft sales, may be inadequate to permit ILFC to meet its existing obligations. AIG is exploring restructuring opportunities for ILFC. AIG intends to provide support to ILFC through February 28, 2011 to the extent that secured financing, aircraft sales and other sources of funds are not sufficient to meet liquidity needs.

AGF anticipates that its primary sources of liquidity will be customer receivable collections and additional on-balance sheet securitizations and, to a lesser extent, portfolio sales (see Liquidity of Parent and

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Subsidiaries Financial Services AGF below). In addition, AIG is exploring restructuring opportunities for AGF. AIG intends to provide support to AGF through February 28, 2011, to the extent that asset sales, securitizations and/or other transactions are not sufficient to meet AGF's liquidity needs.

Debt maturities for the MIP are expected to be funded through cash flows generated from invested assets (principal and interest) as well as the sale or financing of the asset portfolios in the program. In addition, as a result of AIG's restructuring activities, AIG expects to utilize assets from its noncore businesses and subsidiaries to provide future cash flow enhancement and help the MIP meet its maturing debt obligations.

Approximately \$1.4 billion of AIGFP's debt maturities through December 31, 2010 are fully collateralized, with assets backing the corresponding liabilities, which AIGFP expects will reduce the net amount of cash required to repay the maturing debt. However, in addition to the cash requirements shown above for AIGFP, Curzon Funding LLC, an AIGFP asset-backed commercial paper conduit and Nightingale Finance LLC, a structured investment vehicle sponsored, but not consolidated by AIGFP, had \$1.2 billion and \$1.1 billion, respectively, of commercial paper outstanding under the CPFF at February 17, 2010, all of which matures in April 2010. AIGFP intends to repay this commercial paper at maturity, which is expected to lead to an increase in borrowings under the FRBNY Credit Facility.

AIG expects to meet its debt maturities primarily through the cash flows from, and the disposition of, assets supporting these obligations as well as through borrowings under the FRBNY Credit Facility. In addition, AIG also expects to collect dividends, distributions and other payments from certain subsidiaries to fund payments on its obligations. Additional liquidity is also available under the Department of the Treasury Commitment.

In the future, AIG may need to provide additional capital support for its subsidiaries. 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 FRBNY Credit Facility.

### **Asset Disposition Plan**

Since September 2008, AIG has been working to protect and enhance the value of its key businesses, execute an orderly asset disposition plan, and position itself for the future. AIG continually reassesses this plan to maximize value while maintaining flexibility in its liquidity and capital, and expects to accomplish these objectives over a longer time frame than originally contemplated.

### *Sales of Businesses and Specific Asset Dispositions*

Dispositions of certain businesses will be subject to regulatory approval. Proceeds from dispositions, to the extent they do not represent capital of AIG's insurance subsidiaries required for regulatory or ratings purposes, are contractually required to be applied toward the repayment of the FRBNY Credit Facility as mandatory prepayments unless otherwise agreed with the FRBNY.

During 2009 and through February 17, 2010, AIG entered into agreements to sell or completed the sale of operations and assets, excluding AIGFP assets, that had aggregate assets and liabilities with carrying values of \$88.1 billion and \$71.3 billion, respectively, at December 31, 2009 or the date of sale or, in the case of Transatlantic, deconsolidation. These transactions are expected to generate approximately \$5.6 billion of aggregate net cash proceeds that will be available to repay outstanding borrowings and reduce the maximum lending commitment under the FRBNY Credit Facility, after taking into account taxes, transaction expenses, settlement of intercompany loan facilities, and capital required to be retained for regulatory or ratings purposes. Gains and losses recorded in connection with the dispositions of businesses include estimates that are subject to subsequent adjustment. Based on the transactions thus far, AIG does not believe that such adjustments will be material to future results of operations or cash flows.

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These transactions included the following:

On May 28, 2009, AIG completed the sale of its headquarters building in Tokyo for approximately \$1.2 billion in cash. Due to AIG's continued involvement as a lessee, primarily in the form of a lease deposit, through 2011, the sale is accounted for as a financing arrangement with any gain deferred until the expiration of AIG's lease in early 2011.

On June 10, 2009, AIG closed the previously announced secondary public offering of 29.9 million shares of Transatlantic common stock owned by AIG for aggregate proceeds of \$1.1 billion. At the close of the public offering, AIG retained 13.9 percent of Transatlantic's outstanding shares of common stock. As a result, AIG deconsolidated Transatlantic, which resulted in a \$1.4 billion reduction in Noncontrolling interests, a component of Total equity.

On July 1, 2009, AIG closed the sale of its U.S. auto insurance business, 21st Century Insurance Group (21st Century). This operation had total assets and liabilities with carrying values of \$5.7 billion and \$3.4 billion, respectively, at June 30, 2009. Aggregate proceeds from the sale of this business, including proceeds applied to repay intercompany loan facilities, were \$1.9 billion.

On July 28, 2009, AIG completed the sale of a majority of the U.S. life insurance premium finance business of AIG Credit Corp. and A.I. Credit Consumer Discount Company (A.I. Credit), with a carrying value of \$941.3 million at that date, for \$680 million in cash, including \$230 million held in escrow, and an additional \$61.2 million if certain future conditions are met.

On July 28, 2009, AIG entered into an agreement to combine its consumer finance business in Poland, conducted through AIG Bank Polska S.A., into the Polish consumer finance business of Santander Consumer Finance S.A (SCB). In exchange, AIG will receive equity interest in SCB. At closing, all of the AIG intercompany debt facilities related to these entities will be repaid, and AIG will not be responsible for the future funding of the combined consumer finance businesses. The closing is expected to occur in the first quarter of 2010. This transaction met the criteria for held-for-sale accounting in 2009.

On September 5, 2009, AIG entered into an agreement to sell its investment advisory and third party institutional asset management business for total consideration consisting of a cash payment determined at closing based on the net assets of the business being sold plus contingent consideration. This transaction met the criteria for held-for-sale accounting.

On October 12, 2009, AIG entered into an agreement to sell its 97.57 percent share of Nan Shan Life Insurance Company, Ltd. (Nan Shan) for approximately \$2.15 billion. As a result, Nan Shan qualified as a discontinued operation and met the criteria for held-for-sale accounting in 2009. AIG recognized a \$1.5 billion after tax loss on the transaction. See Note 2 to the Consolidated Financial Statements.

### AGF Portfolio Sales and Securitization Transaction

During 2009, AGF received proceeds of \$1.9 billion from real estate loan portfolio sales. In addition, on July 30, 2009, AGF issued mortgage-backed certificates in a private securitization transaction of certain AGF real estate loans and received cash proceeds of \$967 million.

### AIA and ALICO Transactions with the FRBNY

On December 1, 2009, AIG and the FRBNY completed two transactions pursuant to which AIG transferred to the FRBNY preferred equity interests in newly-formed SPVs in settlement of a portion of the outstanding balance of the FRBNY Credit Facility. Each SPV has (directly or indirectly) as its only asset 100 percent of the common stock of an AIG operating subsidiary (AIA in one case and ALICO in the other). AIG owns the common interests of each SPV. In exchange for the preferred equity interests received by the FRBNY, there was a \$25 billion



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reduction in the outstanding balance and maximum lending commitment under the FRBNY Credit Facility. See Note 16 to the Consolidated Financial Statements for further discussion.

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### **AIGFP Wind-down**

AIGFP is engaged in a multi-step process of unwinding its businesses and portfolios. In connection with that process, certain assets were sold. The proceeds from these sales have been used to fund AIGFP's wind-down and are not included in the amounts described above under Sales of Businesses and Specific Asset Dispositions. The FRBNY waived the requirement under the FRBNY Credit Agreement that the proceeds of these specific sales be applied as a mandatory prepayment under the FRBNY Credit Facility, which would have resulted in a permanent reduction of the FRBNY's commitment to lend to AIG. Instead, the FRBNY has given AIGFP permission to retain the proceeds of these completed sales, and has required that such proceeds received from certain future sales be used to voluntarily prepay the FRBNY Credit Facility, with the amounts prepaid available for future reborrowing subject to the terms of the FRBNY Credit Facility. AIGFP is also opportunistically terminating contracts. AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with AIG's affiliated businesses. 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 of AIGFP will take a substantial period of time. The cost of executing the wind-down will depend on many factors, many of which are not within AIG's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades.

On August 11, 2009, AIGFP completed sales of its energy and infrastructure investment assets, realizing aggregate net proceeds of \$619 million and \$1.3 billion in 2009 and 2008, respectively.

### **Liquidity of Parent and Subsidiaries**

#### **AIG (Parent)**

The following table presents AIG parent's sources of liquidity:

(In millions)	As of	
	December 31, 2009	February 17, 2010
Available borrowing under the FRBNY Credit Facility	\$ 17,100	\$ 14,000
Cash and short-term investments	528	287
Available capacity under the Department of the Treasury Commitment	24,491	22,292*
Total	\$ 42,119	\$ 36,579

\*

*Reflects AIG's February 2010 request to draw down \$2.2 billion under the Department of the Treasury Commitment principally to improve the risk-based capital ratios of its General Insurance subsidiaries by redeeming securities of affiliates held by those subsidiaries.*

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. The inability of AGF or ILFC to raise sufficient liquidity to meet their obligations without support from AIG, additional collateral calls, deterioration in investment portfolios affecting statutory surplus, higher surrenders of annuities and other policies, further downgrades in AIG's credit ratings, catastrophic losses or reserve strengthening, or a further deterioration in the super senior credit default swap portfolio may result in significant additional cash needs, or loss of some sources of liquidity, or both. Regulatory and other legal restrictions could limit AIG's ability to transfer funds freely, either to or from its subsidiaries. (See Item 1A. Risk Factors above.)

Since the fourth quarter of 2008, AIG has not accessed its traditional sources of long-term or short-term financing through the public debt markets. While no assurance can be given that AIG will be able to access these markets again, AIG has continued to periodically evaluate its ability to access the capital markets.

Historically AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG's current financial situation, certain of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG.

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As a result, AIG has been dependent on the FRBNY and the Department of the Treasury as its primary sources of liquidity. Primary uses of cash flow are for debt service and subsidiary funding. In 2009, AIG parent collected \$2.2 billion in dividends and other payments from subsidiaries (primarily from insurance company subsidiaries), and retired \$1.4 billion of debt, excluding MIP and Series AIGFP debt. Excluding MIP and Series AIGFP debt, AIG parent made interest payments totaling \$1.8 billion, and made

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\$5.7 billion in net capital contributions to subsidiaries in 2009. In addition, during the second quarter of 2009, AIG parent drew down on the Department of the Treasury Commitment in order to make loans totaling \$1.2 billion to wholly owned subsidiaries, which in turn were used principally to make capital contributions to insurance companies.

AIG parent traditionally funded a portion of its short-term working capital needs through commercial paper issued by AIG Funding. Since October 2008, all commercial paper issued for AIG Funding was through the CPFF program. AIG Funding was accepted into the CPFF with a total borrowing limit of \$6.9 billion. AIG Funding had approximately \$2 billion in commercial paper outstanding at December 31, 2009, which was repaid in January 2010.

**General Insurance**

In 2009, AIG made a capital contribution of \$641 million to a Chartis U.S. subsidiary, all of which was returned as a dividend to AIG later in the year. AIG collected an additional \$500 million in dividends from Chartis U.S. in the fourth quarter of 2009. AIG also made a capital contribution of \$91 million in 2009 to a Chartis U.S. subsidiary in connection with the subsidiary's sale of a portion of its Transatlantic common stock.

AIG currently expects that its Chartis subsidiaries will be able to continue to meet their 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 the affected General Insurance operations. In addition, further downgrades in AIG's credit ratings could put pressure on the insurer financial strength ratings of these subsidiaries. A downgrade in the insurer financial strength ratings of an insurance company subsidiary could result in non-renewals or cancellations by policyholders and adversely affect these companies' ability to meet their own obligations and require that AIG provide capital or liquidity support to them. Increases in market interest rates may adversely affect the financial strength ratings of General Insurance subsidiaries as rating agency capital models may reduce the amount of available capital relative to required capital.

At December 31, 2009, Chartis had liquidity in the form of cash and short-term investments. These are consolidated cash and short-term investments for a number of legal entities within Chartis. Generally, these assets are not transferable across various legal entities; however, there are generally sufficient cash and short-term investments within those legal entities such that they can meet their individual liquidity needs. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 95.0 percent of General Insurance total fixed income investments at December 31, 2009. Given the size and liquidity profile of AIG's General Insurance investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. AIG's asset/liability management process takes into account the expected maturity of investments and the specific nature and risk profile of liabilities. Historically, there has been no significant variation between the expected maturities of AIG's General Insurance investments and the payment of claims. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Investments for further information.

**Domestic and Foreign Life Insurance & Retirement Services operations**

At December 31, 2009, Domestic and Foreign Life Insurance & Retirement Services subsidiaries had liquidity in the form of cash and short-term investments, which management considers adequate to meet foreseeable liquidity needs. Domestic and Foreign Life Insurance & Retirement Services subsidiaries had been increasing their liquidity given recent market disruptions and AIG-specific issues, which reduced investment income in 2009. During the second half of 2009, these subsidiaries began lengthening their maturity profile by purchasing investment grade fixed income securities. Generally, these assets are not transferable across various legal entities; however, there are generally sufficient cash and short-term investments within those legal entities such that they can meet their individual liquidity needs. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 85.6 percent of Domestic and Foreign Life Insurance & Retirement Services total fixed income investments at December 31, 2009. Given the size and liquidity profile of AIG's Domestic and Foreign Life Insurance & Retirement Services investment portfolios, AIG believes that deviations from their projected claim experience do not constitute a significant liquidity risk. The Domestic and Foreign Life Insurance & Retirement Services subsidiaries have been able to meet liquidity needs, even during the period of higher surrenders

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which was experienced from mid-September 2008 through the first quarter of 2009, and expect to be able to do so in the foreseeable future. A significant increase in policy surrenders and withdrawals, which could be triggered by a variety of factors, including AIG specific concerns, could result in a substantial liquidity strain. Other potential events causing a liquidity strain could include economic collapse of a nation or region significant to Domestic and Foreign Life Insurance & Retirement Services operations, nationalization, catastrophic terrorist acts, pandemics or other economic or political upheaval. See Investments Investment Strategy herein for further information.

### Domestic Life Insurance & Retirement Services

During 2009, AIG contributed capital totaling \$2.4 billion to certain of its Domestic Life Insurance & Retirement Services subsidiaries (of which \$165 million was retained in the Domestic Life Insurance holding company and not contributed to the operating companies) to replace a portion of the capital lost as a result of net realized capital losses (primarily resulting from other-than-temporary impairment charges) and other investment-related items. Of this amount, \$1.2 billion was funded by drawdowns under the Department of the Treasury Commitment in May 2009. AIG believes that its Domestic Life Insurance & Retirement Services companies currently have adequate capital to support their business plans. Further capital contributions may be required to maintain desired levels of capital to the extent there are future declines in the investment portfolios of the Domestic Life Insurance & Retirement Services companies.

The most significant potential liquidity needs of AIG's Domestic Life Insurance & Retirement Services companies are the funding of surrenders and withdrawals. A substantial increase in these needs could place stress on the liquidity of these companies. However, management believes that these companies have sufficient short-term liquidity to meet such demands.

Beginning in 2009, results for the GIC program are recorded in the Domestic Life Insurance & Retirement Services reportable segment and results for prior periods have been revised accordingly.

**The GIC program is in run-off with no new GICs issued subsequent to 2005. The following table summarizes the anticipated run-off of the domestic GIC portfolio:**

**At December 31, 2009**

<i>(in billions)</i>	2010	2011 - 2012	2013 - 2014	Thereafter	Total
Domestic GICs	\$ -	\$ 2.5	\$ 2.5	\$ 3.5	\$ 8.5

These GIC liabilities are expected to be funded by investment income and maturities of assets supporting the Domestic Retirement Services companies' liabilities.

### Foreign Life Insurance & Retirement Services

During 2009, AIG provided funding of \$624 million to Foreign Life Insurance & Retirement Services subsidiaries. AIG believes that its Foreign Life Insurance & Retirement Services companies currently have adequate capital to support their business plans. However, to the extent there are future declines in the investment portfolios of the Foreign Life Insurance & Retirement Services companies, AIG may need to lend or contribute additional capital to these companies.

In connection with the AIA and ALICO SPV transactions, on December 1, 2009, AIG, the FRBNY and each SPV entered into limited liability company agreements, which set forth the terms and conditions of the respective parties' ownership and governance rights in each SPV. Under the terms of these agreements, the AIA SPV and the ALICO SPV may only distribute funds to AIG (prior to the payment of the preferred returns and liquidation preferences on the preferred interests in each respective SPV and, in the case of the AIA SPV, a payment of 1 percent of the net income of the AIA SPV to the holders of the preferred interests in the AIA SPV for all fiscal years prior to payment of the preferred return and liquidation preference) in an aggregate amount not to exceed \$200 million and \$400 million, respectively, per fiscal year.

### Financial Services

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AIG's major Financial Services operating subsidiaries consist of ILFC, AIGFP, AGF and AIG Consumer Finance Group, Inc. (AIGCFG). Traditional sources of funds to meet the liquidity needs of these operations are generally no

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longer available. These sources included issuances of guaranteed investment agreements (GIAs), issuance of long- and short-term debt, issuance of commercial paper, bank loans and bank credit facilities. However, ILFC has been able to finance Airbus aircraft purchases under its 2004 Export Credit Agency (ECA) Facility, as further described below, and AIGCFG has been able to retain a significant portion of customer deposits, providing a measure of liquidity.

*ILFC*

During 2009, ILFC was unable to borrow in the public debt markets and, due to downgrades in its short-term credit rating, lost access to the CPFF and therefore borrowed \$3.9 billion from AIG Funding to repay its maturing debt and other contractual obligations. In addition, ILFC borrowed approximately \$161 million through secured financing arrangements. ILFC is currently pursuing additional secured financings. ILFC had the capacity under its present facilities and indentures to enter into secured financing of approximately \$4.7 billion (or more through subsidiaries that qualify as non-restricted subsidiaries under ILFC's indentures, subject to the receipt of any required consents under the FRBNY Credit Facility and under its bank facilities and terms loans), which was reduced to approximately \$800 million after entry into the Term Loans with AIG Funding as discussed below. ILFC is pursuing potential aircraft sales as one of several options to meet its financial and operating obligations. Proposed portfolios have been presented to potential buyers; some bids have been received and are being evaluated. In evaluating the bids, management is balancing the need for funds with the long-term value of holding aircraft and other financing alternatives. Significant uncertainties currently exist about the possibility of a sale, including the aircraft comprising an actual sale portfolio, the sale price, and whether a sale agreement could be agreed upon with acceptable terms to the buyers and AIG and ILFC.

Because the current market for aircraft is depressed due to the economic downturn and limited availability of buyer financing, it is likely that if a group of aircraft is sold to meet liquidity needs, a realized loss would be incurred. As the uncertainties related to the potential sale portfolios change, the likelihood of a sale changes, which directly impacts the nature, timing and amount of any impairment loss.

Based on the facts and circumstances at December 31, 2009, ILFC performed an impairment analysis of the proposed portfolios and concluded that no impairments on any aircraft in the portfolios had occurred based on management's estimates of the probabilities of retaining or selling the aircraft. If circumstances change and the probability of a sale increases significantly, or a sale transaction is approved or executed, ILFC would most likely incur a loss at a future date. The amount of potential loss would be dependent upon the specific aircraft sold, the sale price, the sale date and any other sale contingencies. Based on the range of potential aircraft portfolio sales currently being explored, the potential for impairment or realized loss could be material to the results of operations for an individual reporting period.

ILFC did not recognize an impairment loss related to any potential aircraft sale portfolios as of December 31, 2009, given the significant uncertainties described above as the probability of sale was not sufficiently likely to cause an impairment. If ILFC does not receive sufficient secured financing, AIG expects that ILFC's current borrowings and future cash flows from operations, including aircraft sales, may be inadequate to permit ILFC to meet its existing obligations. AIG intends to provide support to ILFC through February 28, 2011 to the extent that secured financing, aircraft sales and other sources of funds are not sufficient to meet ILFC's liquidity needs.

Under its current long-term debt ratings, ILFC needs written consent from the security trustee of its 2004 ECA Facility before it can fund Airbus aircraft deliveries under the facility. As of February 17, 2010, ILFC had approximately \$600 million available under the 2004 ECA Facility to finance its Airbus aircraft purchases through June 2010. ILFC financed 25 aircraft under the 2004 ECA Facility during 2009, 19 of which required written consent, which was obtained. However, the trustees' consent for the financing of 5 Airbus aircraft delivered during the fourth quarter of 2009 was not obtained until the first quarter of 2010. ILFC's current credit ratings also require (i) the segregation of security deposits, maintenance reserves and rental payments received for aircraft funded under both its 1999 and 2004 ECA Facilities into separate accounts, controlled by the trustees of the 1999 and 2004 ECA Facilities; and (ii) the filings of individual mortgages on the aircraft funded under the facility in the respective local jurisdictions in which its lessees operate. At December 31, 2009, ILFC had segregated security deposits, maintenance reserves and rental payments aggregating \$315 million related to such aircraft. Segregated rental payments are used to pay principal and interest on the ECA facilities as they become due.

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On October 13, 2009, ILFC entered into two term loan agreements (the Term Loans) with AIG Funding comprised of a new \$2.0 billion credit agreement and a \$1.7 billion amended and restated credit agreement. The Term Loans are secured by a portfolio of aircraft and all related equipment and leases. ILFC used the proceeds from the \$2.0 billion loan to repay in full its obligations under its \$2.0 billion revolving credit facility that matured on October 15, 2009. The second credit agreement amended and restated the two demand note agreements aggregating \$1.7 billion that ILFC entered into in March 2009 with AIG Funding, including extending the maturity date of such demand notes. Both Term Loans mature on September 13, 2013 and currently bear interest at 3-month LIBOR plus 6.025%. The Term Loans are due in full at maturity with no scheduled amortization. On December 4, 2009, the new \$2.0 billion credit agreement was increased to \$2.2 billion. The funds for the Term Loans were provided to AIG Funding through the FRBNY Credit Facility. As a condition of the FRBNY approving the Term Loans, ILFC entered into agreements to guarantee the repayment of AIG's obligations under the FRBNY Credit Agreement up to an amount equal to the aggregate outstanding balance of the Term Loans.

As a result of the Term Loans, ILFC's available capacity under its present facilities and indentures to enter into secured financing was approximately \$800 million at February 17, 2010.

### AIGFP

Prior to September 2008, AIGFP had historically funded its operations through the issuance of notes and bonds, GIA borrowings, other structured financing transactions and repurchase agreements.

In the second half of 2008, AIGFP's access to its traditional sources of liquidity was significantly reduced, and it relied on AIG parent to meet most of its liquidity needs. AIGFP's asset backed commercial paper conduit, Curzon Funding LLC, was accepted into the CPFF with a total borrowing limit of \$7.2 billion, and had approximately \$1.2 billion outstanding at February 17, 2010. Separately, a structured investment vehicle sponsored, but not consolidated, by AIGFP, Nightingale Finance LLC, was also accepted into the CPFF with a borrowing limit of \$1.1 billion and had approximately \$1.1 billion outstanding at February 17, 2010. All of the commercial paper matures in April 2010. AIGFP intends to repay this commercial paper at maturity, which will most likely lead to an increase in borrowings under the FRBNY Credit Facility.

The following table presents a rollforward of the amount of collateral posted by AIGFP:

Year Ended December 31, 2009 (in millions)	Collateral Posted as of December 31, 2008	Additional Postings, Netted by Counterparty	Collateral Returned by Counterparties	Collateral Posted as of December 31, 2009
Collateralized GIAs and other borrowings	\$ 9,401	\$ 429	\$ 3,701	\$ 6,129
Derivatives (including super senior credit default swaps)	22,791	2,098	15,082	9,807
<b>Total</b>	<b>\$ 32,192</b>	<b>\$ 2,527</b>	<b>\$ 18,783</b>	<b>\$ 15,936</b>

### AGF

Prior to September 2008, AGF's traditional source of liquidity had been collections of customer receivables and borrowings in the public markets.

With its continued inability to access traditional capital market sources, AGF anticipates that its primary source of funds to support its operations and repay its obligations will be customer receivable collections and additional on-balance sheet securitizations and portfolio sales. In order to improve cash flow from operations, AGF has significantly limited its lending activities and aggressively managed its expenses. Since September 2008 and through February 17, 2010, AGF's alternative funding sources have included proceeds of \$1.9 billion from real estate loan portfolio sales and cash proceeds of \$967 million from a real estate loan securitization. AGF is considering additional sales and/or securitizations of its finance receivables. In addition, AIG is exploring other restructuring opportunities for AGF. AIG intends to provide support to AGF through February 28, 2011 to the extent that asset sales, securitizations and/or other transactions are not sufficient to meet AGF's liquidity needs. AIG made a \$600 million capital contribution to AGF (through AIG Capital Corporation) during 2009, and AGF loaned \$1.6 billion to AIG parent under demand notes. In July 2009, AGF converted the \$2.45 billion of loans that AGF had previously drawn on





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its 364-day Syndicated Facility into one-year term loans. These termed-out loans must be repaid by July 9, 2010. AIG provides a capital support agreement to AGF in connection with these loans.

### *AIGCFG*

AIG believes that the funding needs of AIGCFG have stabilized but it is possible that renewed customer and counterparty concerns could increase AIGCFG's liquidity needs in 2010. During 2009 and through February 17, 2010, AIG has completed the sale of the AIGCFG operations in China, Thailand, the Philippines, Mexico, Hong Kong, Brazil, Russia and Taiwan. AIG has also entered into contracts to sell the AIGCFG operations in Argentina, Colombia and Poland.

### Noncore Businesses

The principal cash requirements of AIG's noncore asset management operations are to fund general working capital needs, investment commitments related to proprietary investments in private equity and real estate as well as any liquidity mismatches in the MIP. Management continues to work closely with partners and counterparties to manage future funding requirements on proprietary investments through various strategies including through relinquishing rights in certain properties and funds, the restructuring of investment relationships and sales to third parties. Through early 2010, AIG has made significant progress in reducing contractual investment commitments of its proprietary private equity investment portfolio.

Cash requirements related to Institutional Asset Management are funded through general operating cash flows from management and performance fees, proceeds from events in underlying funds (capital calls to third parties, sales of portfolio companies, etc.) as well as intercompany funding provided by AIG. Consequently, Institutional Asset Management's ability to fund certain of its needs may depend on advances from AIG under various intercompany borrowing facilities. Restrictions on these facilities would have adverse consequences on the ability of the business to satisfy its obligations. With respect to the Global Real Estate investment management business, investing activities are also funded through third-party financing arrangements which are secured by the relevant properties.

### *UGC*

In 2009, pursuant to an excess of loss reinsurance agreement, AIG made capital contributions into a trust to secure statutory credit for ceded losses from UGC's insurance subsidiaries to a wholly owned AIG subsidiary. UGC's insurance subsidiaries have maintained adequate capital and liquidity levels during the year, primarily due to this reinsurance agreement and expect to cede additional losses to the affiliate in 2010.

### *Matched Investment Program*

The Matched Investment Program is in run-off. AIG expects to fund its obligations under this program through cash flows generated from invested assets (principal and interest) as well as the sale or financing of the asset portfolios in the program. However, market illiquidity and diminished values within the investment portfolios may impair AIG's ability to sell the program assets or sell such assets for a price adequate to settle the corresponding liabilities when they come due. In such a case, AIG parent would need to fund the obligations. In addition, as a result of AIG's restructuring activities AIG expects to utilize assets from its non-core businesses and subsidiaries to provide future cash flow enhancement and debt repayment ability for the MIP. AIG did not issue any additional debt to fund the MIP in 2009 or 2008 and does not intend to issue any additional debt for the foreseeable future.

**The following table presents the contractual maturities of debt issued under the MIP:**

**At December 31, 2009**

<i>(in billions)</i>	<b>2010</b>	<b>2011 - 2012</b>	<b>2013 - 2014</b>	<b>Thereafter</b>	<b>Total</b>
MIP liabilities	\$ 2.2	\$ 5.4	\$ 1.3	\$ 4.5	\$ 13.4

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The MIP invests in various fixed income asset classes which include corporate debt, both public and private, and structured fixed income products consisting of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and CDOs. The majority of these investments were rated investment grade at February 17, 2010. In addition, the MIP invests in bank loans, commercial mortgage loans and single name credit default swaps.

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American International Group, Inc., and Subsidiaries

### Debt

The following table presents AIG's total debt outstanding:

<i>(in millions)</i>	December 31, 2009	December 31, 2008
Debt issued by AIG:		
FRBNY Credit Facility (secured)	\$ 23,435	\$ 40,431
Notes and bonds payable	10,419	11,756
Junior subordinated debt	12,001	11,685
Junior subordinated debt attributable to equity units	5,880	5,880
Loans and mortgages payable	438	416
MIP matched notes and bonds payable	13,371	14,446
Series AIGFP matched notes and bonds payable	3,913	4,660
Total AIG debt	69,457	89,274
Debt guaranteed by AIG:		
AIGFP, at fair value		
Commercial paper and other short-term debt <sup>(a)</sup>	2,742	6,802
GIAs	8,257	13,860
Notes and bonds payable	2,029	5,250
Loans and mortgages payable	1,022	2,175
Hybrid financial instrument liabilities	1,887	2,113
Total AIGFP debt	15,937	30,200
AIG Funding commercial paper <sup>(a)</sup>	1,997	6,856
AIGLH notes and bonds payable	798	798
Liabilities connected to trust preferred stock	1,339	1,415
Total debt issued or guaranteed by AIG	89,528	128,543
Debt not guaranteed by AIG:		
ILFC		
Commercial paper and other short-term debt <sup>(a)</sup>		1,748
Junior subordinated debt	999	999
Notes and bonds payable, ECA Facilities, bank financings and other secured financings <sup>(b)</sup>	25,174	30,047
Total ILFC debt	26,173	32,794
AGF		
Commercial paper and other short-term debt		188
Junior subordinated debt	349	349
Notes and bonds payable	19,770	23,089
Total AGF debt	20,119	23,626
AIGCFG		
Commercial paper and other short-term debt		124
Loans and mortgages payable	216	1,596

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Total AIGCFG debt	216	1,720
Other subsidiaries	295	670
Debt of consolidated investments held through:		
AIG Investments	532	1,300
AIG Global Real Estate Investment	4,412	4,545
ALICO	90	
SunAmerica	107	5
Total debt of consolidated investments	5,141	5,850
Total debt not guaranteed by AIG	51,944	64,660
Total debt:		
Total commercial paper and other short-term debt		613
Federal Reserve Bank of New York commercial paper funding facility	4,739	15,105
Total long-term debt	136,733	177,485
Total debt	\$ 141,472	\$ 193,203

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(a)

Includes borrowings of \$2.7 billion and \$2.0 billion for AIGFP (through Curzon Funding LLC, AIGFP's asset-backed commercial paper conduit) and AIG Funding, respectively, under the CPFF at December 31, 2009 and \$6.8 billion, \$6.6 billion and \$1.7 billion, respectively, for AIGFP (through Curzon Funding LLC), AIG Funding and ILFC, respectively, under the CPFF at December 31, 2008.

(b)

Includes borrowings under the 1999 and 2004 ECA Facility of \$3.0 billion and \$2.4 billion at December 31, 2009 and December 31, 2008, respectively, and \$130 million of secured financings that are non-recourse to ILFC at December 31, 2009.

## Long-Term Debt

The following table provides the roll-forward of long-term debt, excluding debt of consolidated investments:

Year Ended December 31, 2009 (in millions)	Balance at December 31, 2008	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Non-Cash Changes <sup>(a)</sup>	Balance at December 31, 2009
<b>AIG</b>						
FRBNY Credit Facility	\$ 40,431	\$ 32,526	\$ (26,426)	\$ -	\$ (23,096)	\$ 23,435
Notes and bonds payable	11,756	-	(1,381)	102	(58)	10,419
Junior subordinated debt	11,685	-	-	314	2	12,001
Junior subordinated debt attributable to equity units	5,880	-	-	-	-	5,880
Loans and mortgages payable	416	-	(37)	37	22	438
MIP matched notes and bonds payable	14,446	-	(1,159)	4	80	13,371
Series AIGFP matched notes and bonds payable	4,660	-	(390)	-	(357)	3,913
<b>AIGFP, at fair value<sup>(b)</sup></b>						
GIAs	13,860	754	(3,793)	-	(2,564)	8,257
Notes and bonds payable and hybrid financial instrument liabilities	7,363	49	(3,627)	-	131	3,916
Loans and mortgages payable	2,175	60	(1,199)	-	(14)	1,022
AIGLH notes and bonds payable	798	-	-	-	-	798
Liabilities connected to trust preferred stock	1,415	-	-	-	(76)	1,339
ILFC notes and bonds payable, ECA Facilities, bank financings and other secured financings	30,047	1,295	(6,288)	115	5	25,174
ILFC junior subordinated debt	999	-	-	-	-	999
AGF notes and bonds payable	23,089	962	(4,421)	125	15	19,770
AGF junior subordinated debt	349	-	-	-	-	349
AIGCFG loans and mortgages payable <sup>(b)</sup>	1,596	894	(1,894)	30	(410)	216
Other subsidiaries	670	-	(41)	15	(349)	295
<b>Total</b>	<b>\$ 171,635</b>	<b>\$ 36,540</b>	<b>\$ (50,656)</b>	<b>\$ 742</b>	<b>\$ (26,669)</b>	<b>\$ 131,592</b>

(a)

FRBNY Credit facility reflects a \$25 billion reduction in outstanding balance as a result of the AIA and ALICO SPV transactions, offset by \$1.9 billion of accrued compounding interest and fees.

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(b)

*Includes declines of \$2.5 billion in the fair value of AIGFP debt and \$123 million reclassified to Liabilities of businesses held for sale for AIGCFG reported in other non-cash changes.*

### *AIG (Parent Company)*

AIG historically 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. However, mismatches in the timing of cash inflows and outflows of the MIP, as well as shortfalls due to impairments of MIP assets, would need to be funded by AIG parent.

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### American International Group, Inc., and Subsidiaries

As of December 31, 2009, approximately \$7.0 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, \$508 million was used by AIGFP (included within "Series AIGFP matched notes bonds and payable" in the preceding tables) and \$3.3 billion was used to fund the MIP. The maturity dates of these notes range from 2010 to 2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes.

As of December 31, 2009, the equivalent of \$11.6 billion of notes were outstanding under AIG's Euro medium-term note program, of which \$9.6 billion were used to fund the MIP and the remainder was used for AIG's general corporate purposes. The aggregate amount outstanding includes a \$867 million loss resulting from foreign exchange translation into U.S. dollars, of which \$52 million loss relates to notes issued by AIG for general corporate purposes and \$815 million loss relates to notes issued to fund the MIP. AIG has economically hedged the currency exposure arising from its foreign currency denominated notes.

### *AIG Life Holdings (US), Inc. (AIGLH)*

In connection with its acquisition of AIGLH in 2001, AIG entered into arrangements with AIGLH with respect to outstanding AIGLH capital securities. In 1996, AIGLH issued capital securities through a trust to institutional investors and funded the trust with AIGLH junior subordinated debentures issued to the trust. AIGLH guaranteed payments to the holders of capital securities only to the extent (i) the trust received payments on the debentures and (ii) these payments were available for the trust to pay to holders of capital securities. In 2001, AIG guaranteed the same payments to the holders of capital securities. Like the AIGLH guarantee, the AIG guarantee only applies to any payments actually made to the trust in respect of the debentures. If no payments are made on the debentures, AIG is not required to make any payments to the trust. AIG also guaranteed the debentures pursuant to a guarantee that is expressly subordinated to certain AIGLH senior debt securities. Under AIG's guarantee, AIG is not required to make any payments in respect of the debentures if such payment would be prohibited by the subordination provisions of the debentures. As a result, AIG will never be required to make a payment under its guarantee of the debentures for so long as AIGLH is prohibited from making a payment on the debentures.

### *AIGFP*

Approximately \$1.4 billion of AIGFP's debt maturing through December 31, 2010 is fully collateralized with assets backing the corresponding liabilities. However, mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold to satisfy maturing liabilities. Depending on market conditions and AIGFP's ability to sell assets at that time, proceeds from sales may not be sufficient to satisfy the full amount due on maturing liabilities. Any shortfalls would need to be funded by AIG parent.

### *ILFC*

At December 31, 2009, notes aggregating \$16.9 billion were outstanding, consisting of \$5.4 billion of term notes and \$11.5 billion of medium-term notes with maturities ranging from 2010 to 2015 and interest rates ranging from 0.48 percent to 7.95 percent and \$1.0 billion of junior subordinated debt as discussed below. Notes aggregating \$3.9 billion are at floating interest rates and the remainder are at fixed rates. ILFC enters into swap transactions to manage its effective borrowing rates with respect to these notes.

On October 13, 2009, ILFC entered into two term loan agreements with AIG Funding comprised of a new \$2.0 billion credit agreement and a \$1.7 billion amended and restated credit agreement. The Term Loans are secured by a portfolio of aircraft and all related equipment and leases. Both Term Loans mature on September 13, 2013 and currently bear interest at 3-month LIBOR plus 6.025%. The Term Loans are due in full at maturity with no scheduled amortization. On December 4, 2009, the new \$2.0 billion credit agreement was increased to \$2.2 billion. The funds for the Term Loans were provided to AIG Funding through the FRBNY Credit Facility. As a condition of the FRBNY approving the Term Loans, ILFC entered into agreements to guarantee the repayment of AIG's obligations under the FRBNY Credit Agreement up to an amount equal to the aggregate outstanding balance of the Term Loans.



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At December 31, 2009, ILFC had outstanding \$1.9 billion in notes issued under a Euro medium-term note program, which are included in ILFC notes and bonds payable in the preceding table of borrowings. ILFC has substantially eliminated the currency exposure arising from foreign currency denominated notes by hedging the note exposure through swaps.

In December 2005, ILFC issued two tranches of junior subordinated debt totaling \$1.0 billion to underlie trust preferred securities issued by a trust sponsored by ILFC. The \$600 million tranche has a call date of December 21, 2010 and the \$400 million tranche has a call date of December 21, 2015. Both tranches mature on December 21, 2065. The \$600 million tranche has a fixed interest rate of 5.90 percent for the first five years. The \$400 million tranche has a fixed interest rate of 6.25 percent for the first ten years. Both tranches have interest rate adjustments if the call option is not exercised based on a floating quarterly reset rate equal to the initial credit spread plus the highest of (i) 3-month LIBOR, (ii) 10-year constant maturity treasury and (iii) 30-year constant maturity treasury.

ILFC has a \$4.3 billion 1999 ECA Facility that was used in connection with the purchase of 62 Airbus aircraft delivered through 2001. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.78 percent to 5.86 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At December 31, 2009, ILFC had 32 loans with a remaining principal balance of \$146 million outstanding under this facility. At December 31, 2009, the net book value of the related aircraft was \$1.8 billion. 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.

ILFC has a similarly structured 2004 ECA Facility, which was amended in May 2009 to allow ILFC to borrow up to a maximum of \$4.6 billion to fund the purchase of Airbus aircraft delivered through June 30, 2010. 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 2.25 percent or at fixed rates ranging from 4.20 percent to 4.71 percent. At December 31, 2009, ILFC had financed 66 aircraft using approximately \$4.0 billion under this facility and approximately \$2.9 billion was outstanding. At December 31, 2009, the interest rate of the loans outstanding ranged from 0.45 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. At December 31, 2009, the net book value of the related aircraft was approximately \$4.0 billion. Borrowings with respect to these facilities are included in ILFC's notes and bonds payable in the preceding table of borrowings.

At December 31, 2009, the total funded amount of ILFC's bank financings was \$5.1 billion, which includes \$4.5 billion of revolving credit facilities (see Revolving Credit Facilities below). The fundings mature through February 2012. The interest rates are LIBOR-based, with spreads ranging from 0.25 percent to 0.40 percent. At December 31, 2009, the interest rates ranged from 0.55 percent to 0.93 percent. AIG does not guarantee any of the debt obligations of ILFC.

#### *AGF*

As of December 31, 2009, notes and bonds aggregating \$19.8 billion were outstanding with maturity dates ranging from 2010 to 2031 at interest rates ranging from 0.31 percent to 9.00 percent. To the extent considered appropriate, AGF may enter 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 but has provided a capital support agreement for the benefit of AGF's lenders under AGF's one-year term loans (previously, a 364-day syndicated facility). Under this support agreement, AIG has agreed to cause AIG's wholly owned subsidiary, American General Finance Corporation, to maintain (1) consolidated net worth of \$2.2 billion and (2) an adjusted tangible leverage ratio of less than or equal to 8 to 1 at the end of each fiscal quarter. This support agreement benefits only the lenders under the AGF 364-Day Syndicated Facility and does not benefit, and is not enforceable by, any of the other creditors of AGF. This support agreement continued for the benefit of AGF's lenders upon the conversion of the facility borrowings into one-year term loans in July 2009.

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## Revolving Credit Facilities

ILFC and AGF have maintained committed, unsecured revolving credit facilities listed on the table below. Both ILFC and AGF have drawn the full amount available under their revolving credit facilities. In July 2009, AIG's 364-Day Syndicated Facility expired and, in August 2009, AIG terminated its 5-Year Syndicated Facility. As a result, AIG no longer has access to any revolving credit facilities.

The following table presents a summary of revolving credit facilities:

At December 31, 2009

(in millions)

Facility	Size	Borrower(s)	Available Amount	Expiration
<b>ILFC:</b>				
5-Year Syndicated Facility	\$ 2,500	ILFC	\$ -	October 2011
5-Year Syndicated Facility	2,000	ILFC	-	October 2010
Total ILFC	\$ 4,500		\$ -	
<b>AGF:</b>				
1-Year Term Loans	\$ 2,450	American General Finance Corporation	-	July 2010*
		American General Finance, Inc.	-	
5-Year Syndicated Facility	2,125	American General Finance Corporation	-	July 2010
Total AGF	\$ 4,575		\$ -	

\*

On July 9, 2009, AGF converted the \$2.45 billion of loans that AGF had previously drawn on its 364-Day Syndicated Facility into one-year term loans. These term-out loans must be repaid by July 9, 2010.

## 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 February 17, 2010. 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	Moody's <sup>(a)</sup>	S&P <sup>(b)</sup>	Fitch <sup>(c)</sup>
AIG	P-1 (1st of 3) <sup>(d)</sup>	A-1 (1st of 8)	F1 (1st of 5)	A3 (3rd of 9) <sup>(d)</sup>	A- (3rd of 8) <sup>(d)</sup>	BBB (4th of 9) <sup>(e)</sup>
AIG Financial Products Corp. <sup>(f)</sup>	P-1 <sup>(d)</sup>	A-1	-	A3 <sup>(d)</sup>	A- <sup>(d)</sup>	-
AIG Funding, Inc. <sup>(f)</sup>	P-1 <sup>(d)</sup>	A-1	F1	-	-	-
ILFC	Not prime <sup>(d)</sup>	-	F2 <sup>(h)</sup>	B1 (6th of 9) <sup>(d)</sup>	BBB-(4th of 8) <sup>(g)</sup>	BBB (4th of 9) <sup>(h)</sup>
American General Finance Corporation	Not prime <sup>(d)</sup>	B (4th of 8)	-	B2 (6th of 9) <sup>(d)</sup>	BB+(5th of 8) <sup>(d)</sup>	BB (5th of 9) <sup>(h)</sup>
American General Finance, Inc.	Not prime	B (4th of 8)	-	-	-	BB (5th of 9) <sup>(h)</sup>

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- (a) *Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the 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) *Negative Outlook.*
- (e) *Evolving Outlook.*
- (f) *AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding.*
- (g) *Credit Watch Negative.*
- (h) *Rating Watch Negative.*

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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, structured financing arrangements 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. For a discussion of the effect of a downgrade in AIG's credit ratings on AIGFP's financial derivative transactions, see Item 1A. Risk Factors – Credit and Financial Strength Ratings.

### Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

Year Ended December 31, 2009 (in millions)	Total Payments	Payments due by Period			
		2010	2011 - 2012	2013 - 2014	Thereafter
Long-term debt <sup>(a)</sup>	\$ 108,157	\$ 19,432	\$ 26,599	\$ 12,240	\$ 49,886
FRBNY Credit Facility	23,435	-	-	23,435	-
Interest payments on borrowings	61,703	4,478	8,376	9,784	39,065
Loss reserves <sup>(b)</sup>	85,386	18,956	23,566	13,184	29,680
Insurance and investment contract liabilities <sup>(c)</sup>	628,521	24,535	46,274	45,959	511,753
GIC liabilities <sup>(d)</sup>	8,813	218	2,530	2,464	3,601
Aircraft purchase commitments	13,699	243	887	3,546	9,023
Operating leases	2,576	600	781	456	739
Purchase obligations <sup>(e)</sup>	675	286	189	74	126
Total <sup>(f)(g)</sup>	\$ 932,965	\$ 68,748	\$ 109,202	\$ 111,142	\$ 643,873

(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

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*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 inforce 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 policyholder contract deposits included in the Consolidated Balance Sheet.*

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- (d) *Represents guaranteed maturities under GICs.*
- (e) *Primarily includes contracts to purchase future services and other capital expenditures.*
- (f) *Does not reflect unrecognized tax benefits of \$4.8 billion, the timing of which is uncertain.*
- (g) *The majority of AIGFP's credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At December 31, 2009, the fair value derivative liability was \$4.4 billion relating to AIGFP's super senior multi-sector CDO credit default swap portfolio, net of amounts realized in extinguishing derivative obligations. 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. However, AIGFP has posted collateral of \$3.7 billion with respect to these swaps (prior to offsets for other transactions).*

### Off Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

At December 31, 2009	Amount of Commitment Expiration				
(in millions)	Total Amounts Committed	2010	2011 - 2012	2013 - 2014	Thereafter
Guarantees:					
Liquidity facilities <sup>(a)</sup>	\$ 890	\$ -	789	-	101
Standby letters of credit	1,264	1,094	28	19	123
Construction guarantees <sup>(b)</sup>	104	2	21	-	81
Guarantees of indebtedness	213	-	-	-	213
All other guarantees <sup>(c)</sup>	1,911	11	139	128	1,633
Commitments:					
Investment commitments <sup>(d)</sup>	7,418	2,382	2,477	1,426	1,133
Commitments to extend credit	194	84	89	19	2
Letters of credit	267	198	69	-	-
Other commercial commitments <sup>(e)</sup>	723	46	20	10	647
Total <sup>(f)</sup>	\$ 12,984	\$ 3,817	\$ 3,632	\$ 1,602	\$ 3,933

- (a) *Primarily liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.*
- (b) *Primarily SunAmerica construction guarantees connected to affordable housing investments.*
- (c) *Excludes potential amounts attributable to indemnifications included in asset sales agreements.*
- (d) *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.*
- (e) *Includes options to acquire aircraft. Excludes commitments with respect to pension plans. The annual pension contribution for 2010 is expected to be approximately \$134 million for U.S. and non-U.S. plans.*
- (f)

*Does not include guarantees or other support arrangements among AIG consolidated entities.*

**Arrangements with Variable Interest Entities**

AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business. AIG's insurance companies are involved with VIEs primarily as passive investors in debt securities (rated and unrated) and equity interests issued by VIEs. Through its Financial Services segment and Noncore Asset Management businesses, AIG has participated in arrangements with VIEs that include designing and structuring entities, warehousing and managing the collateral of the entities, and entering into insurance, credit and derivative transactions with the VIEs. AIG has also established trusts for the sole purpose of issuing mandatorily redeemable preferred stock to investors. AIG has determined that the trusts are VIEs, but has not consolidated these VIEs because AIG is not the primary beneficiary and does not hold a variable interest in these VIEs.

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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 VIE's expected residual returns; or (iii) both. For a further discussion of AIG's involvement with VIEs, see Note 10 to the Consolidated Financial Statements.

### Dividends from Insurance Subsidiaries

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to AIG's domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. For example, unless permitted by the New York Superintendent of Insurance, general insurance companies domiciled in New York may not pay dividends to shareholders that, in any twelve-month period, exceed the lesser of ten percent of such company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income," as defined. Generally, less severe restrictions applicable to both general and life insurance companies exist in most of the other states in which AIG's insurance subsidiaries are domiciled. Under the laws of many states, an insurer may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds. Other foreign jurisdictions, notably Bermuda, Japan, Hong Kong, Taiwan, the U.K., Thailand and Singapore, may restrict the ability of AIG's foreign insurance subsidiaries to pay dividends. There are also various local restrictions limiting cash loans and advances to AIG by its subsidiaries. Largely as a result of these restrictions, a significant majority of the aggregate equity of AIG's consolidated subsidiaries was restricted from immediate transfer to AIG parent at December 31, 2009. AIG cannot predict how regulatory investigations may affect the ability of its regulated subsidiaries to pay dividends. To AIG's knowledge, no AIG company is currently on any regulatory or similar "watch list" with regard to solvency. See also Liquidity herein and Item 1A. Risk Factors – Liquidity.

### Regulation and Supervision

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. AIG parent is not generally subject to supervision by state regulators, but certain transactions, such as those involving significant transactions with its insurance company subsidiaries and any transaction involving a change in control of AIG or any of its insurance company subsidiaries, may require the prior approval of state regulators. In the United States, the NAIC has developed Risk-Based Capital (RBC) Model Law requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations.

AIG's insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic and foreign insurance regulatory authorities. The principal differences between statutory financial statements for domestic companies and financial statements prepared in accordance with U.S. GAAP are that statutory financial statements do not reflect DAC, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, policyholder liabilities are valued using more conservative assumptions and certain assets are non-admitted.

As discussed under Item 3. Legal Proceedings, various regulators have commenced investigations into certain insurance business practices. In addition, the OTS and other regulators routinely conduct examinations of AIG and its subsidiaries, including AIG's consumer finance operations. AIG cannot predict the ultimate effect that these investigations and examinations, or any additional regulation arising therefrom, might have on its business. Federal, state or local legislation may affect AIG's ability to operate and expand its various financial services businesses, and changes in the current laws, regulations or interpretations thereof may have a material adverse effect on these businesses. See Item 1A. Risk Factors for additional information.

AIG's U.S. operations are negatively affected under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net



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assessment cannot reasonably be estimated. The guarantee fund assessments net of credits recognized in 2009, 2008 and 2007, respectively, were \$18 million, \$12 million and \$71 million.

AIG is also required to participate in various involuntary pools (principally workers' compensation business) which provide insurance coverage for those not able to obtain such coverage in the voluntary markets. This participation is also recorded upon notification, as these amounts cannot reasonably be estimated.

A substantial portion of AIG's General Insurance business and all of its Foreign Life Insurance & Retirement Services business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may affect AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's net financial exposure at that time in that country.

Foreign insurance operations are individually subject to local solvency margin requirements that require maintenance of adequate capitalization, which AIG complies with by country. In addition, certain foreign locations, notably Japan, have established regulations that can result in guarantee fund assessments. These have not had a material effect on AIG's financial condition or results of operations. See Note 17 to the Consolidated Financial Statements.

## **Results of Operations**

AIG reports the results of its operations through four reportable segments: General Insurance, Domestic Life Insurance & Retirement Services, Foreign Life Insurance & Retirement Services, and Financial Services. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations and net gains (losses) on sales of divested businesses because AIG believes that this provides more meaningful information on how its operations are performing. Through these reportable 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 operations category consists of business and items not allocated to AIG's reportable 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.

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## Consolidated Results

The following table presents AIG's consolidated results of operations:

Years Ended December 31, (in millions)	Percentage Increase/(Decrease)				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
<b>Revenues:</b>					
Premiums and other considerations	\$ 64,702	\$ 78,564	\$ 74,753	(18)%	5%
Net investment income	25,239	11,433	30,051	121	(62)
Net realized capital losses	(6,854)	(52,705)	(3,501)	-	-
Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio	1,418	(28,602)	(11,472)	-	-
Other income	11,499	(1,794)	13,801	-	-
<b>Total revenues</b>	<b>96,004</b>	<b>6,896</b>	<b>103,632</b>	<b>-</b>	<b>(93)</b>
<b>Benefits, claims and expenses:</b>					
Policyholder benefits and claims incurred	61,436	58,839	62,452	4	(6)
Policy acquisition and other insurance expenses	20,674	26,284	19,819	(21)	33
Interest expense	15,369	17,007	4,751	(10)	258
Restructuring expenses and related asset impairment and other expenses	1,386	804	-	72	-
Net loss on sale of divested businesses	1,271	-	-	-	-
Other expenses	9,516	10,490	8,476	(9)	24
<b>Total benefits, claims and expenses</b>	<b>109,652</b>	<b>113,424</b>	<b>95,498</b>	<b>(3)</b>	<b>19</b>
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>(13,648)</b>	<b>(106,528)</b>	<b>8,134</b>	<b>-</b>	<b>-</b>
<b>Income tax expense (benefit)</b>	<b>(1,878)</b>	<b>(8,894)</b>	<b>1,267</b>	<b>-</b>	<b>-</b>
<b>Income (loss) from continuing operations</b>	<b>(11,770)</b>	<b>(97,634)</b>	<b>6,867</b>	<b>-</b>	<b>-</b>
<b>Income (loss) from discontinued operations, net of income tax expense (benefit)</b>	<b>(543)</b>	<b>(2,753)</b>	<b>621</b>		
<b>Net income (loss)</b>	<b>(12,313)</b>	<b>(100,387)</b>	<b>7,488</b>	<b>-</b>	<b>-</b>
<b>Less:</b>					
<b>Income (loss) from continuing operations attributable to noncontrolling interests:</b>	<b>140</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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Noncontrolling nonvoting, callable,  
junior and senior preferred interests  
held by Federal Reserve Bank of  
New York

Other	(1,527)	(944)	1,259	-	-
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Total Income (loss) from continuing  
operations attributable to  
noncontrolling interests

(1,387)	(944)	1,259	-	-
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**Income (loss) from discontinued  
operations attributable to  
noncontrolling interests**

23	(154)	29	-	-
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**Total net income (loss) attributable  
to non- controlling interests**

(1,364)	(1,098)	1,288	-	-
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**Net income (loss) attributable to  
AIG**

\$ (10,949)	\$ (99,289)	\$ 6,200	-%	-%
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**Premiums and Other Considerations**

**2009 and 2008 Comparison**

Premiums and other considerations decreased in 2009 compared to 2008 primarily due to:

a reduction of \$6.9 billion in 2009 from dispositions, including the sale of the Brazilian operations in 2008, sales of HSB Group, Inc. (HSB), 21st Century and AIG Life Canada in 2009 and the deconsolidation of Transatlantic in 2009;

a decline in Commercial Insurance net premiums written due to reductions in workers' compensation, construction, real estate and transportation lines of business;

a decrease in Foreign General Insurance due to the negative effect of foreign exchange and the sale of the Brazilian operations in 2008 noted above;

a decrease in Domestic Life Insurance premiums, primarily due to lower payout annuities and the sale of AIG Life Canada; and

a decrease in Foreign Life Insurance & Retirement Services primarily due to lower sales and deposits, the sale of the Brazilian operations in 2008, the effect of foreign exchange translation, and the effect of equity markets on investment-linked and annuity products globally.

**2008 and 2007 Comparison**

Premiums and other considerations increased in 2008 compared to 2007 primarily due to:

growth in Foreign Life Insurance & Retirement Services resulting from increased production and favorable foreign exchange rates;

an increase in Foreign General Insurance due to growth in commercial and consumer lines driven by new business from both established and new distribution channels, a decrease in the use of reinsurance and favorable foreign exchange rates; and

growth in Domestic Life Insurance due to an increase in sales of payout annuities sales and growth in life insurance business in force.

These increases were partially offset by a decline in Commercial Insurance premiums primarily from lower U.S. workers' compensation premiums attributable to declining rates, lower employment levels and increased competition, as well as a decline in other casualty lines of business.

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### Net Investment Income

The following table summarizes the components of consolidated Net investment income:

(in millions)	Years Ended December 31,			Percentage Increase/(Decrease)	
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Fixed maturities, including short-term investments	\$ 18,793	\$ 21,472	\$ 21,496	(12)%	-%
Maiden Lane interests	394	(1,116)	-	-	-
Equity securities	397	408	440	(3)	(7)
Interest on mortgage and other loans	574	622	650	(8)	(4)
Partnerships	(35)	(2,152)	3,415	-	-
Mutual funds	440	(962)	521	-	-
Trading account gains (losses)	33	(725)	(150)	-	-
Real estate	1,229	1,226	1,126	-	9
Other investments	457	629	691	(27)	(9)
Total investment income before policyholder income and trading gains (losses)	22,282	19,402	28,189	15	(31)
Policyholder investment income and trading losses	3,950	(6,984)	2,903	-	-
Total investment income	26,232	12,418	31,092	111	(60)
Investment expenses	993	985	1,041	1	(5)
Net investment income	\$ 25,239	\$ 11,433	\$ 30,051	121%	(62)%

### 2009 and 2008 Comparison

Net investment income increased in 2009 compared to 2008 primarily due to:

increased policyholder investment income and trading gains and losses for Foreign Life Insurance & Retirement Services (together, policyholder trading gains (losses)), compared to 2008. Policyholder trading losses are offset by a change in Policyholder benefits and claims incurred and generally reflect the trends in equity markets, principally in Japan and Asia;

gains associated with the change in fair value of AIG's investment in ML III of \$419 million in 2009 resulting from improvements in valuation, primarily resulting from the shortening of the weighted average life from 10.9 years to 9.6 years, and the narrowing of credit spreads by approximately 100 basis points. Adversely affecting the fair value is the decrease in cash flows primarily due to an increase in projected credit losses in the underlying collateral securities; and

income from mutual fund investments in 2009 compared to losses in 2008 and a decrease in partnership losses in 2009, in each case reflecting stronger market conditions in 2009 than in 2008.

These increases were partially offset by:

lower levels of invested assets, including the effect of divested businesses, in 2009 compared to 2008; and

lower returns as a result of increased levels of short-term investments that were held for liquidity purposes.

**2008 and 2007 Comparison**

Net investment income decreased in 2008 compared to 2007 due to:

losses from partnership and mutual fund investments reflecting significantly weaker market conditions in 2008 than in 2007;

policyholder trading losses for Foreign Life Insurance & Retirement Services in 2008 compared to policyholder trading gains in 2007, reflecting equity market declines;

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losses related to AIG's economic interest in ML II and investment in ML III of approximately \$1.1 billion in 2008; and

the effect of increased levels of short-term investments, for liquidity purposes.

### **Net Realized Capital Gains (Losses)**

<i>(in millions)</i>	<b>Years Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Sales of fixed maturity securities	\$ 956	\$ (5,159)	\$ (429)
Sales of equity securities	390	104	917
Sales of real estate and loans	(10)	238	172
Other-than-temporary impairments:			
Severity	(1,892)	(27,798)	(1,517)
Change in intent	(1,036)	(11,518)	(993)
Foreign currency declines	(517)	(1,903)	(500)
Issuer-specific credit events	(4,185)	(5,785)	(497)
Adverse projected cash flows on structured securities	(149)	(1,645)	(446)
Provision for loan losses	(708)	-	-
Foreign exchange transactions	(1,256)	3,166	(672)
Derivative instruments	1,749	(3,420)	16
Other	(196)	1,015	448
Total	\$ (6,854)	\$ (52,705)	\$ (3,501)

### **2009 and 2008 Comparison**

Net realized capital losses decreased in 2009 compared to 2008 primarily due to the following:

the 2008 period included non-credit impairments (i.e. severity losses) throughout the year that are no longer required for fixed maturity securities due to the adoption of the new other-than-temporary impairments accounting standard commencing in the second quarter of 2009. Additionally, other-than-temporary impairments declined from the 2008 period due to improved market conditions. See Note 6 to the Consolidated Financial Statements; and Investments Other-Than-Temporary Impairments.

gains on sales of fixed maturity securities in 2009 compared to losses in 2008 reflecting improvement in the credit markets.

gains on derivative instruments not qualifying for hedge accounting treatment in 2009 compared to losses in 2008 resulting from weakening of the U.S. dollar.

Partially offsetting the above items were losses on sales of real estate and other assets in 2009. Additionally, Net realized capital losses includes foreign exchange translation losses in 2009 compared to gains in 2008 primarily resulting from the weakening of the U.S. dollar.

### **2008 and 2007 Comparison**

Net realized capital losses increased in 2008 compared to 2007 primarily due to an increase in other-than-temporary impairment charges. The increase in other-than-temporary impairment charges included the following significant items:

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;



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losses related to the change in AIG's intent and ability to hold to recovery certain securities, primarily those held as collateral in the securities lending program;

issuer-specific credit events, including charges associated with investments in financial institutions; and

adverse projected cash flows on certain impaired structured securities.

These other-than-temporary impairment charges were partially offset by the favorable effect of foreign exchange translation due to strengthening of the U.S. dollar. See Investments Other-Than-Temporary Impairments.

During the fourth quarter of 2008, certain AIG securities lending transactions met the requirements of sale accounting because collateral received was insufficient to fund substantially all of the cost of purchasing replacement assets for the securities lent to various counterparties. Accordingly, AIG recognized a loss of \$2.4 billion on deemed sales of these securities. Also, Net realized capital losses in 2008 included a loss of \$2.3 billion, incurred in the fourth quarter of 2008, on RMBS prior to their purchase by ML II. See Investments Other Noncore Businesses and Note 6 to the Consolidated Financial Statements.

**Unrealized Market Valuation Gains (Losses) on AIGFP Super Senior Credit Default Swap Portfolio**

**2009 and 2008 Comparison**

AIGFP reported unrealized market valuation gains related to its super senior credit default swap portfolio of \$1.4 billion in 2009 and unrealized market valuation losses of \$28.6 billion in 2008. The change in the unrealized market valuation gains (losses) related to AIGFP's super senior credit default swap portfolio was due to the substantial decline in outstanding net notional amount resulting from the termination of contracts in the fourth quarter of 2008 associated with the ML III transaction and the improvement in market conditions in 2009, as well as the narrowing of corporate credit spreads.

**2008 and 2007 Comparison**

The unrealized market valuation losses on AIGFP's super senior credit default swap portfolio increased in 2008 compared to 2007 due to significant widening in credit spreads and the downgrades of RMBS and CDO securities by rating agencies in 2008 driven by the credit concerns resulting from U.S. residential mortgages and the severe liquidity crisis affecting the markets. In connection with the termination of \$62.1 billion net notional amount of CDS transactions related to multi-sector CDOs purchased in the ML III transaction, AIG Financial Products Corp. paid \$32.5 billion through the surrender of collateral previously posted (net of \$2.5 billion received pursuant to the shortfall agreement), of which \$2.5 billion (included in Other income (loss)) was related to certain 2a-7 Put transactions written on multi-sector CDOs purchased by ML III. These losses did not affect income, as unrealized market valuation losses were already recorded in income.

See Segment Results Financial Services Operations Financial Services Results Capital Markets Results and Critical Accounting Estimates Valuation of Level 3 Assets and Liabilities and Note 6 to the Consolidated Financial Statements.

**Other Income (Loss)**

**2009 and 2008 Comparison**

Other income increased in 2009 compared to 2008 due to:

a net credit valuation adjustment gain of \$2.8 billion in 2009 compared to a net credit valuation adjustment loss of \$9.5 billion in 2008 on AIGFP's assets and liabilities which are measured at fair value, excluding gains reflected in Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio;

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an improvement of \$5.5 billion reflecting the positive effect of hedging activities that did not qualify for hedge accounting, which was driven by the weakening of the U.S. dollar against most major currencies during 2009.

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These increases were partially offset by:

a \$2.4 billion decline in noncore Institutional Asset Management revenues due to impairments on proprietary real estate and private equity investments and lower base management fees on lower base assets under management in 2009;

a decline of \$1.0 billion in income from consolidated managed partnerships and funds, which is partially offset by Net income (loss) attributable to noncontrolling interests; and

lower finance charges and other revenues in Consumer Finance reflecting the sales of AGF real estate portfolios as part of AGF's liquidity management efforts as well as the effect of sales of Consumer Finance businesses in 2009.

### **2008 and 2007 Comparison**

Other Income (loss) decreased in 2008 compared to 2007 primarily due to increased losses in Capital Markets of \$13.7 billion, which includes a credit valuation adjustment of \$9.1 billion on AIGFP's assets and liabilities which are measured at fair value.

These decreases were partially offset by increased rental revenues for ILFC, driven by a larger aircraft fleet and higher lease rates.

### **Policyholder Benefits and Claims Incurred**

### **2009 and 2008 Comparison**

Policyholder benefits and claims incurred increased in 2009 compared to 2008 due to:

an increase in incurred policy losses and benefits expenses for Foreign Life Insurance & Retirement Services due to policyholder trading gains of \$4.0 billion in 2009 compared to policyholder trading losses of \$6.8 billion in 2008 as discussed above in Net Investment Income; and

adverse development from prior years in Commercial Insurance primarily for excess casualty and excess workers' compensation and increased current year losses in Foreign General Insurance from exposure to financial lines claims.

These increases were partially offset by:

a reduction of \$5.2 billion from dispositions, primarily the sale of the Brazilian operations in 2008, sales of HSB, 21st Century and AIG Life Canada in 2009 and the deconsolidation of Transatlantic in 2009;

catastrophe-related losses of \$53 million in 2009 compared to \$1.6 billion in 2008 (losses in 2008 were primarily related to hurricanes Ike and Gustav); and

the effects of lower production levels for General Insurance and Domestic Life & Retirement Services.

### **2008 and 2007 Comparison**

Policyholder benefits and claims incurred decreased in 2008 compared to 2007 due to a reduction in incurred policy losses and benefits expense for Foreign Life Insurance & Retirement Services of \$9.4 billion related to policyholder trading gains (losses) as discussed above in Net

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investment income. These losses more than offset increased claims and claims adjustment expenses of \$5.6 billion in AIG's General Insurance operations and Noncore insurance businesses, which reflected increased catastrophe losses of \$1.5 billion principally from hurricanes Ike and Gustav. Results for 2008 also included a \$1.8 billion increase in Mortgage Guaranty claims incurred, reflecting the deterioration of the U.S. housing market.

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**Policy Acquisition and Other Insurance Expenses**

**2009 and 2008 Comparison**

Policy acquisition and other insurance expenses decreased in 2009 compared to 2008 primarily due to:

a reduction of \$2.4 billion from dispositions, primarily the sale of the Brazilian operations in 2008, sales of HSB, 21st Century and AIG Life Canada in 2009 and the deconsolidation of Transatlantic in 2009;

a reduction of \$3.3 billion due to goodwill impairment charges recorded in 2008 as discussed below; and

the effects of lower production levels for General Insurance and both Domestic and Foreign Life Insurance & Retirement Services.

**2008 and 2007 Comparison**

Policy acquisition and other insurance expenses increased in 2008 compared to 2007 due to:

a \$2.4 billion increase in General Insurance expenses primarily due to goodwill impairment charges of \$1.2 billion from Commercial Insurance primarily related to goodwill of HSB;

a \$174 million increase in Domestic Life Insurance & Retirement Services expenses primarily due to \$1.2 billion of goodwill impairment charges, partially offset by changes in deferred acquisition costs;

an increase of \$2.9 billion in Foreign Life Insurance & Retirement Services expenses as a result of the effect of foreign exchange, growth in the business and the effect of the implementation of the new fair value option accounting standard; and

Goodwill impairment charges of \$878 million in 2008 from Noncore insurance businesses.

**Interest Expense**

**2009 and 2008 Comparison**

Interest expense decreased in 2009 compared to 2008 primarily due to lower interest expense on the FRBNY Credit Facility. Interest expense on the FRBNY Credit Facility was \$10.4 billion in 2009 compared to \$11.4 billion in 2008. Interest expense in 2009 included \$8.4 billion of amortization of the prepaid commitment fee asset, including accelerated amortization of \$5.2 billion in connection with the \$25 billion reduction in the outstanding balance and maximum lending commitment under the FRBNY Credit Facility. See Note 1 to the Consolidated Financial Statements. Interest expense in 2008 included \$9.3 billion of amortization of the prepaid commitment fee asset associated with the FRBNY Credit Facility, including accelerated amortization of \$6.6 billion in connection with the November 25, 2008 restructuring of the FRBNY Credit Facility. During 2009, interest expense benefited from a reduced interest rate on the FRBNY Credit Facility (weighted average rate of 4.5 percent in 2009 compared to 10.6 percent in 2008); however, because the facility was outstanding for the full year in 2009 compared to only 107 days in 2008, the favorable impact was largely offset.

**2008 and 2007 Comparison**

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Interest expense increased in 2008 compared to 2007 on higher levels of borrowings primarily due to the interest expense on the FRBNY Credit Facility, inclusive of the amortization of the prepaid commitment fee asset. Interest expense in 2008 also included interest on the junior subordinated debt and Equity Units from the dates of issuance in May 2008.

### **Restructuring Expenses and Related Asset Impairment and Other Expenses**

In the fourth quarter of 2008, following receipt of federal government assistance, AIG commenced an organization-wide restructuring plan, which AIG continued to develop and modify throughout 2009. In connection with activities under this plan, AIG recorded restructuring and separation expenses of \$1.4 billion in 2009, consisting

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of severance expenses of \$163 million, contract termination expenses of \$53 million, asset write-downs of \$129 million, other exit expenses of \$439 million, and separation expenses of \$602 million.

Other exit expenses primarily include professional fees related to (i) disposition activities, (ii) AIG's capital restructuring program with the FRBNY and the Department of the Treasury and (iii) unwinding of AIGFP's businesses and portfolios.

Severance and separation expenses for 2009 described above include retention awards of \$503 million to key employees to maintain ongoing business operations and facilitate the successful execution of the restructuring and asset disposition plan. The awards under these retention plans were granted in 2008 and are accrued ratably over the future service periods, which range from 2008 to 2011. The total amount expected to be incurred related to these 2008 retention plans is approximately \$1.1 billion. AIG made payments to the employees under these plans in 2008 and 2009 and expects to make further payments through 2011. The ultimate amount paid could be less primarily due to the effect of forfeitures.

**The following table presents amounts charged to expense, and expected to be charged to expense, and the total amounts expected to be incurred under the 2008 retention plans, by reportable segment:**

<i>(In millions)</i>	<b>General Insurance</b>	<b>Domestic Life Insurance &amp; Retirement Services</b>	<b>Foreign Life Insurance &amp; Retirement Services</b>	<b>Financial Services</b>	<b>Other</b>	<b>Total</b>
Amounts charged to expense:						
Year Ended December 31, 2009	\$ 122	\$ 56	\$ 95	\$ 173	\$ 57	\$ 503
Year Ended December 31, 2008	83	52	25	288	96	544
Cumulative incurred since inception of restructuring plan <sup>(a)</sup>	205	108	120	461	153	1,047
Amounts expected to be incurred in future periods:						
2010	2	-	5	-	2	9
2011	-	-	1	-	-	1
Total amounts expected to be incurred in future periods	2	-	6	-	2	10
Total amounts expected to be incurred <sup>(b)</sup>	\$ 207	\$ 108	\$ 126	\$ 461	\$ 155	\$ 1,057

(a)

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*Includes an adjustment of \$51 million in Financial Services to increase the cumulative amount incurred since inception for retention amounts paid in 2008.*

(b)

*At December 31, 2009, remaining amounts payable totaled \$393 million.*

Total restructuring and separation expenses could have a material effect on future consolidated results of operations and cash flows for an individual reporting period.

See Note 3 to the Consolidated Financial Statements for additional discussion regarding restructuring and separation expenses.

### **Net loss on Sale of Divested Businesses**

Includes the net loss on sales of divested businesses during 2009 that did not qualify as discontinued operations. See Segment Results Other Operations Other Results herein for further information.

### **Other Expenses**

#### **2009 and 2008 Comparison**

Other expenses for 2009 decreased compared to 2008 primarily due to a decrease in compensation-related costs for Parent and Other operations and the noncore Asset Management businesses, including the effect of deconsolidation



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of certain portfolio investments and the sale of Private Bank, a Swiss bank. Additionally, goodwill impairment charges of \$612 million in 2009 are reflected in the Other operations category primarily related to the noncore Institutional Asset Management business compared to goodwill impairment charges of \$791 million recorded in 2008 discussed below.

**2008 and 2007 Comparison**

Other expenses increased in 2008 compared to 2007 primarily due to goodwill impairment charges of \$791 million in 2008 in the Financial Services segment related to the Consumer Finance and Capital Markets businesses, which resulted from the downturn in the housing markets, the credit crisis and the intent to unwind AIGFP's businesses and portfolios. In addition, Other expenses in 2008 increased compared to 2007 due to higher AGF provisions for finance receivable losses of \$674 million in response to the higher levels of delinquencies in AGF's finance receivable portfolio.

**Income Tax (Benefits)**

**2009 and 2008 Comparison**

The effective tax rate on pre-tax losses from continuing operations for 2009 was 13.8 percent. The effective tax rate differed from the statutory rate of 35 percent primarily due to an increase in the valuation allowance and reserve for uncertain tax positions, partially offset by tax exempt interest and the change in estimated U.S. tax liability with respect to the potential sale of subsidiaries.

At December 31, 2009, AIG reported a net deferred tax asset after valuation allowance of \$5.9 billion. Included in this net deferred tax asset is a valuation allowance of \$23.7 billion and deferred tax liabilities of \$18.5 billion. Management determined, from pending dispositions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets and excluding projected future operating income, that it is more likely than not that the remaining \$5.9 billion net deferred tax asset is realizable.

See Critical Accounting Estimates Valuation Allowance on Deferred Tax Assets and Note 21 to the Consolidated Financial Statements for a rollforward of the deferred tax asset and related valuation allowance.

**2008 and 2007 Comparison**

The effective tax rate on the pre-tax loss from continuing operations for 2008 was 8.3 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to \$25.4 billion of deferred tax expense recorded during 2008, comprising \$4.8 billion of deferred tax expense attributable to the potential sale of foreign businesses and a \$20.6 billion valuation allowance to reduce its deferred tax asset to an amount that AIG believes is more likely than not to be realized.

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## Segment Results

The following table summarizes the operations of each reportable segment. (See also Note 4 to Consolidated Financial Statements.)

Years Ended December 31, (in millions)	2009	2008	2007	Percentage Increase/(Decrease)	
				2009 vs. 2008	2008 vs. 2007
Total revenues :					
General Insurance	\$ 35,039	\$ 34,731	\$ 41,162	1%	(16)%
Domestic Life Insurance & Retirement Services	11,366	(19,634)	18,189	-	-
Foreign Life Insurance & Retirement Services	32,937	16,659	31,795	98	(48)
Financial Services	9,576	(31,095)	(1,309)	-	-
Other	9,163	8,449	14,170	8	(40)
Consolidation and eliminations	(2,077)	(2,214)	(375)	-	-
Total	96,004	6,896	103,632	-	(93)
Net realized capital gains (losses) :					
General Insurance	(530)	(4,374)	(242)	-	-
Domestic Life Insurance & Retirement Services	(3,514)	(36,412)	(2,735)	-	-
Foreign Life Insurance & Retirement Services	(1,339)	(8,208)	(125)	-	-
Financial Services	55	(498)	(100)	-	-
Other	(1,526)	(3,213)	(299)	-	-
Total	(6,854)	(52,705)	(3,501)	-	-
Pre-tax income (loss) :					
General Insurance	169	(2,451)	10,175	-	-
Domestic Life Insurance & Retirement Services	(1,179)	(34,948)	3,070	-	-
Foreign Life Insurance & Retirement Services	3,221	(3,332)	5,352	-	-
Financial Services	517	(40,821)	(9,515)	-	-
Other	(15,769)	(23,672)	(1,699)	-	-
Consolidation and eliminations	(607)	(1,304)	751	-	-
Total	\$ (13,648)	\$ (106,528)	\$ 8,134	-%	-%

## General Insurance Operations

AIG's General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance both domestically and abroad.

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As previously noted, AIG believes it should present and discuss its financial information in a manner most meaningful to its financial statement users. Accordingly, in its General Insurance business, AIG uses underwriting profit (loss) to assess performance of the General Insurance business rather than statutory underwriting profit (loss).

In order to better align financial reporting with the manner in which AIG's chief operating decision makers review the businesses to make decisions about resources to be allocated and to assess performance, beginning in 2009, the results for Transatlantic, 21st Century, and Mortgage Guaranty, previously reported as part of the General Insurance operating segment, are now included in AIG's Other operations category. In addition, the historical results of HSB (which was sold on March 31, 2009), which were previously included in Commercial Insurance, are also now included in AIG's Other operations category. Additionally, beginning in 2009 General Insurance results include the equity income (loss) from certain equity method investments which were previously included as part of AIG's Other operations category. Prior period amounts have been revised to conform to the current presentation.

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**General Insurance Results**

The following table presents General Insurance results:

Years Ended December 31, (in millions)	Percentage Increase/(Decrease)				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
Underwriting results:					
Net premiums written	\$ 30,664	\$ 35,633	\$ 37,107	(14)%	(4)%
Decrease (increase) in unearned premiums	1,610	866	(1,051)	86	-
Net premiums earned	32,274	36,499	36,056	(12)	1
Claims and claims adjustment expenses incurred	25,367	26,093	22,391	(3)	17
Change in deferred acquisition costs	241	35	(339)	-	-
Other underwriting expenses	9,262	11,054	8,935	(16)	24
Underwriting profit (loss)	(2,596)	(683)	5,069	-	-
Net investment income	3,295	2,606	5,348	26	(51)
Net realized capital losses	(530)	(4,374)	(242)	-	-
Pre-tax income (loss)	\$ 169	\$ (2,451)	\$ 10,175	-%	-%

*General Insurance Underwriting Results*

In managing its general insurance businesses, AIG analyzes the operating performance of its businesses using underwriting profit. Underwriting profit is derived by reducing net premiums earned by claims and claims adjustment expenses incurred and underwriting expenses, including the change in deferred acquisition costs.

AIG, along with most property and casualty insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. The loss ratio is the sum of claims and claims adjustment expenses divided by net premiums earned. The expense ratio is underwriting expenses divided by net premiums earned. These ratios are relative measurements that describe, for every \$100 of net premiums earned, the cost of losses and expenses, respectively. A combined ratio of less than 100 indicates an underwriting profit and over 100 indicates an underwriting loss.

Net premiums written are initially deferred and earned based upon the terms of the underlying policies. The net unearned premium reserve constitutes deferred revenues which are generally earned ratably over the policy period.

The underwriting environment varies from country to country, as does the degree of litigation activity. Regulation, product type and competition have a direct effect on pricing and consequently on profitability as reflected in underwriting profit and general insurance ratios.

**General Insurance Net Premiums Written**

General Insurance net premiums written decreased in 2009 compared to 2008 as Commercial Insurance net premiums written reflected reductions in insurable exposures primarily driven by the effect of the adverse economic conditions on workers' compensation, construction, real estate and transportation lines of business. Declines in Foreign General Insurance net premiums written reflected the sale of the Brazilian operations in 2008 and a negative impact from changes in foreign exchange rates.

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General Insurance net premiums written decreased in 2008 compared to 2007, as Commercial Insurance net premiums written reflected a decline in workers' compensation and other casualty lines of business. These declines were largely offset by growth in Foreign General Insurance from both established and new distribution channels and the positive effect of changes in foreign exchange rates.

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**AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of General Insurance net premiums written:**

<b>Years Ended December 31,</b>	<b>2009</b>	<b>2008</b>
Decrease in original currency*	<b>(12.5)%</b>	(6.0)%
Foreign exchange effect	<b>(1.4)</b>	2.0
Increase (decrease) as reported in U.S. dollars	<b>(13.9)%</b>	(4.0)%

\*

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

## General Insurance Underwriting Ratios

**The following table summarizes General Insurance GAAP combined ratios:**

<b>Years Ended December 31,</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Loss ratio	<b>78.6</b>	71.5	62.1
Expense ratio	<b>29.4</b>	30.4	23.8
Combined ratio	<b>108.0</b>	101.9	85.9

The increase in the General Insurance combined ratio for 2009 compared to 2008 primarily resulted from the following:

prior year development increased incurred losses by \$2.8 billion in 2009 and decreased incurred losses by \$39 million in 2008. The 2009 prior year development includes a fourth quarter reserve strengthening charge of \$2.3 billion in Commercial Insurance primarily related to excess casualty and excess workers' compensation, two long-tail lines of business, largely from accident years 2002 and prior;

lower levels of favorable development related to loss sensitive policies for Commercial Insurance which amounted to \$118 million in 2009 compared to \$339 million in 2008. This favorable development is reflected in overall development amounts above and relates to loss sensitive policies that have no material effect on underwriting profit as the amounts are substantially offset by a decline in earned premiums; and

effects of premium rate decreases and changes in loss trends.

These increases were partially offset by the following:

a loss ratio for accident year 2009 recorded in 2009 which was 1.5 points lower than the loss ratio for accident year 2008, resulting from a decline in catastrophe losses from \$1.6 billion in 2008 to \$53 million in 2009, accounting for 4.3 points of the decrease in the accident year loss ratio. This decrease in accident year loss ratio was partially offset by a \$412 million increase in current year loss activity from the recent disruption in the financial markets as well as financial frauds claims in Foreign General Insurance. In 2009, the current accident year combined ratio was 99.2; and

decline in the expense ratio of 0.9 points in 2009 compared to 2008 due primarily to a \$1.2 billion impairment charge for goodwill remaining from the acquisition of HSB.

The General Insurance combined ratio for 2008 increased compared to 2007, primarily due to an increase in the loss ratio. The loss ratio for accident year 2008 recorded in 2008 was 7.4 points higher than the loss ratio for accident year 2007 recorded in 2007. Catastrophe-related losses were \$1.6 billion and \$266 million in 2008 and 2007, respectively, accounting for 4.2 points of the increase in the 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. Development from prior years decreased incurred losses by \$39 million in 2008 and decreased incurred losses by \$657 million in 2007. The expense ratio for 2008 increased 3.3 points due to \$1.2 billion of goodwill impairment charges primarily related to HSB.

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### *General Insurance Investing Results*

Net investment income for General Insurance increased in 2009 compared to 2008 primarily due to improvement in returns from partnership investments of \$561 million. Net investment income in 2008 declined substantially from 2007 due primarily to losses incurred on partnership investments, which resulted in a year over year decline in returns from partnerships of \$2.0 billion. Net realized capital losses for General Insurance declined in 2009 compared to 2008 due to lower other-than-temporary impairments on investments as 2008 results reflected significant other-than-temporary impairment charges related to the deterioration in the fixed income markets.

See Consolidated Results for further discussion on Net investment income and Net realized capital gains (losses).

### *Commercial Insurance Results*

The following table presents Commercial Insurance results:

Years Ended December 31, (in millions)	Percentage Increase/(Decrease)				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
<b>Underwriting results:</b>					
Net premiums written	\$ 18,373	\$ 21,243	\$ 24,056	(14)%	(12)%
Decrease (increase) in unearned premiums	1,405	1,169	(349)	20	-
Net premiums earned	19,778	22,412	23,707	(12)	(5)
Claims and claims adjustment expenses incurred	17,943	18,255	16,148	(2)	13
Change in deferred acquisition costs	230	68	(112)	238	-
Other underwriting expenses	4,171	5,819	4,373	(28)	33
Underwriting profit (loss)	(2,566)	(1,730)	3,298	-	-
Net investment income	2,790	1,981	3,883	41	(49)
Net realized capital losses	(679)	(3,294)	(76)	-	-
Pre-tax income (loss)	\$ (455)	\$ (3,043)	\$ 7,105	-%	-%

### Commercial Insurance Underwriting Results

#### Commercial Insurance Net Premiums Written

The following table presents Commercial Insurance net premiums written by line of business:

Years Ended December 31, (in millions)	Percentage Increase/(Decrease)				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
General liability/auto liability	\$ 3,266	\$ 3,687	\$ 4,241	(11)%	(13)%
Workers' compensation	2,710	3,491	4,670	(22)	(25)
Property	2,345	2,269	2,130	3	7
Management/professional liability	1,856	2,166	2,469	(14)	(12)



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Commercial umbrella/excess	<b>1,738</b>	2,251	2,671	(23)	(16)
A&H products	<b>1,261</b>	1,325	1,216	(5)	9
Multinational P&C	<b>978</b>	950	951	3	-
Private client group	<b>926</b>	964	747	(4)	29
Programs	<b>741</b>	900	906	(18)	(1)
Healthcare	<b>564</b>	646	720	(13)	(10)
Environmental	<b>525</b>	768	863	(32)	(11)
Aviation	<b>219</b>	276	320	(21)	(14)
Other	<b>1,244</b>	1,550	2,152	(20)	(28)
Total	<b>\$ 18,373</b>	\$ 21,243	\$ 24,056	(14)%	(12)%

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### American International Group, Inc., and Subsidiaries

Commercial Insurance net premiums written decreased in 2009 compared to 2008 primarily due to:

lower U.S. workers' compensation premiums due to declining rates, lower employment levels, increased competition and a strategy to remain price disciplined;

declines in the construction, real estate and transportation lines of business, which were negatively affected more than other lines by the credit crisis that limited capital for new projects and impacted the general liability and commercial umbrella lines of business; and

adverse effect of AIG's negative publicity in 2009.

Commercial Insurance net premiums written decreased in 2008 compared to 2007 primarily due to declines in premiums from workers' compensation as well as other casualty lines. Declines in other casualty lines resulted from declining rates and reduced activity in the construction and transportation industries. Management and Professional liability lines also declined compared to 2007 due to increased competition, particularly in the fourth quarter of 2008.

### Commercial Insurance Underwriting Ratios

The following table presents Commercial Insurance GAAP combined ratios:

Years Ended December 31,	2009	2008	2007
Loss ratio	90.7	81.4	68.1
Expense ratio	22.3	26.3	18.0
Combined ratio	113.0	107.7	86.1

The increase in the Commercial Insurance combined ratio for 2009 compared to 2008 primarily resulted from the following:

prior year development increased incurred losses by \$2.7 billion in 2009 and by \$23 million in 2008. The 2009 prior year development includes a fourth quarter reserve strengthening charge in Commercial Insurance of \$2.3 billion primarily related to excess casualty and excess workers' compensation, two long-tail lines of business, largely from accident years 2002 and prior;

lower levels of favorable development related to loss sensitive policies which amounted to \$118 million in 2009 compared to \$339 million in 2008. This favorable development relates to loss sensitive policies that are substantially offset by a decline in earned premiums; and

the effects of premium rate decreases and adverse changes in loss trends.

These increases were partially offset by the following:

loss ratio for accident year 2009 recorded in 2009 which was 4.4 points lower than the loss ratio for accident year 2008 recorded in 2008 resulting from a decline in catastrophe losses from \$1.5 billion in 2008 to \$53 million in 2009 accounting for 6.3 points of the decrease. In 2009, the current accident year combined ratio was 98.6; and

decline in the expense ratio of 4.0 points in 2009 compared to 2008 due primarily to \$1.2 billion of goodwill impairment charges primarily related to HSB. Overall expenses, excluding the 2008 write-off of goodwill, declined \$452 million, or 9.8 percent compared to 2008 due to lower variable expenses, but were partially offset by higher pension and restructuring costs. While Commercial Insurance is aggressively pursuing expense reductions, the impact of expense savings will lag the decline in net written premiums.

The Commercial Insurance combined ratio increased in 2008 compared to 2007. The loss ratio for accident year 2008 recorded in 2008 included a 6.6 point effect related to catastrophe losses, and was 10.8 points higher than the loss ratio for accident year 2007 recorded in 2007. Prior year development increased incurred losses by \$23 million in 2008 and reduced incurred losses by \$371 million in 2007. Commercial Insurance expense ratio increased in 2008 compared to 2007 primarily due to the write-off of goodwill noted above. The remaining increase is due to the decline in net premiums earned and mix of business.

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### Commercial Insurance Investing Results

Net investment income for Commercial Insurance increased in 2009 compared to 2008 primarily due to improvement in returns from partnership investments of \$691 million. Net investment income in 2008 declined substantially from 2007 due primarily to losses incurred on partnership investments, which resulted in a year over year decline in returns from partnerships of \$1.8 billion.

Net realized capital losses for Commercial Insurance declined in 2009 compared to 2008 due to lower other-than-temporary impairments on investments as 2008 results reflected significant other-than-temporary impairment charges related to the deterioration in the fixed income markets.

See Consolidated Results for further discussion on Net investment income and Net realized capital gains (losses).

### Foreign General Insurance Results

The following table presents Foreign General Insurance results:

Years Ended December 31, (in millions)	Percentage Increase/(Decrease)				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
<b>Underwriting results:</b>					
Net premiums written	\$ 12,291	\$ 14,390	\$ 13,051	(15)%	10%
Decrease (increase) in unearned premiums	205	(303)	(702)	-	-
Net premiums earned	12,496	14,087	12,349	(11)	14
Claims and claims adjustment expenses incurred	7,424	7,838	6,243	(5)	26
Change in deferred acquisition costs	11	(33)	(227)	-	-
Other underwriting expenses	5,091	5,235	4,562	(3)	15
Underwriting profit (loss)	(30)	1,047	1,771	-	(41)
Net investment income	505	625	1,465	(19)	(57)
Net realized capital gains (losses)	149	(1,080)	(166)	-	-
Pre-tax income	\$ 624	\$ 592	\$ 3,070	5%	(81)%

### Foreign General Insurance Underwriting Results

#### Foreign General Insurance Net Premiums Written

The following table presents Foreign General Insurance net premiums written by line of business:

Years Ended December 31, (in millions)	Percentage Increase/(Decrease)				
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
A&H products	\$ 3,724	\$ 3,907	\$ 3,495	(5)%	12%
Specialty lines	2,327	2,463	2,166	(6)	14
Personal lines	2,243	3,169	2,924	(29)	8

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Casualty	<b>1,679</b>	1,968	1,726	(15)	14
Marine & Energy	<b>700</b>	771	694	(9)	11
Lloyds	<b>635</b>	623	829	2	(25)
Property	<b>530</b>	569	471	(7)	21
Aviation	<b>261</b>	305	296	(14)	3
Other	<b>192</b>	615	450	(69)	37
Total	<b>\$ 12,291</b>	\$ 14,390	\$ 13,051	(15)%	10%

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### American International Group, Inc., and Subsidiaries

Foreign General Insurance net premiums written decreased in 2009 compared to 2008 primarily due to:

sale of the Brazilian operations in 2008, which contributed 7.3 percent to the decline, primarily impacting A&H products and Personal Lines businesses;

negative effect of changes in foreign exchange rates, which contributed 3.5 percent to the decline;

general economic conditions which continued to negatively affect new business; and

adverse effect of negative publicity regarding AIG in 2009.

Net premiums written increased in 2008 compared to 2007 due to growth in commercial and consumer lines driven by new business from established and new distribution channels, including the late 2007 acquisition of Württembergische und Badische Versicherungs AG (WüBa) in Germany. New business in the commercial lines in the U.K. and Europe and decreases in the use of reinsurance increased net premiums earned, but were partially offset by declines in premium rates. Growth in personal accident business in Latin America, South East Asia and Europe also contributed to the increase. However, premiums from the Lloyd's Syndicate Ascot continued to decline.

**AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of Foreign General Insurance net premiums written:**

<b>Years Ended December 31,</b>	<b>2009</b>	<b>2008</b>
Increase (decrease) in original currency*	<b>(11.1)%</b>	4.6%
Foreign exchange effect	<b>(3.5)</b>	5.7
Increase (decrease) as reported in U.S. dollars	<b>(14.6)%</b>	10.3%

\*

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

### Foreign General Insurance Underwriting Ratios

**The following table presents Foreign General Insurance combined ratios:**

<b>Years Ended December 31,</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Loss ratio	<b>59.4</b>	55.6	50.6
Expense ratio	<b>40.8</b>	36.9	35.1
Combined ratio	<b>100.2</b>	92.5	85.7

The increase in the Foreign General Insurance combined ratio for 2009 compared to 2008 primarily resulted from the following:

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increase in the loss ratio of 3.3 points as a result of an increase in financial lines claims of \$412 million arising from the recent disruption in the financial markets as well as financial frauds;

increases in current accident year loss ratio and severe losses were offset by a mild hurricane season, while 2008 was affected by natural catastrophes Hurricanes Gustav and Ike. For 2009, the current accident year combined ratio was 100.2 compared to 93.0 in 2008; and

an increase in the expense ratio in 2009 compared to 2008 due to increased separation costs, restructuring charges, certain costs associated with bad debt-related expenses, pension costs, as well as an increase in unearned premiums.

The loss ratio in 2008 increased compared to 2007. The loss ratio for accident year 2008 recorded in 2008 was 3.2 points higher than the loss ratio recorded in 2007 for accident year 2007 primarily due to continued rate erosion and increased lower level claims frequency. Loss development on prior accident years increased the loss ratio by 1.9 points.

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### Foreign General Insurance Investing Results

Foreign General Insurance Net investment income decreased in 2009 compared to 2008 primarily due to losses from an equity method investment, and lower yields on the fixed income portfolios, partially offset by improving mutual fund income due to improved market conditions. Net investment income decreased in 2008 compared to 2007 reflecting lower mutual fund and partnership income related to poor performance in the equity markets.

Foreign General Insurance recorded Net realized capital gains in 2009 compared to net realized capital losses in 2008 due to the adoption of the new other-than-temporary impairment accounting standard commencing in the second quarter of 2009.

Net realized capital losses in 2008 increased compared to 2007 due to higher other-than-temporary impairments on investments as 2008 results reflected significant charges related to the deterioration in the fixed income markets (see Consolidated Results – Net Realized Capital Gains (Losses) for further discussion). In 2007 realized capital gains and losses included \$150 million of other-than-temporary impairments relating to an equity method investment.

### Liability for Unpaid Claims and Claims Adjustment Expense

The following discussion on the consolidated Liability for unpaid claims and claims adjustment expenses (loss reserves) presents loss reserves for the Commercial Insurance and Foreign General Insurance reporting units in the General Insurance operating segment and loss reserves pertaining to divested and/or Noncore businesses, comprising the Transatlantic, 21st Century and Mortgage Guaranty reporting units reported in AIG's Other operations category.

The following table presents the components of the loss reserves by major lines of business on a statutory annual statement basis<sup>(a)</sup>:

At December 31,

(in millions)	2009	2008
Other liability occurrence	\$ 20,344	\$ 19,773
Workers' compensation	15,200	15,170
Other liability claims made	12,619	13,189
International	12,582	11,786
Mortgage Guaranty/Credit	5,477	3,137
Auto liability	4,164	5,593
Property	3,872	5,201
Products liability	2,414	2,400
Accident and health	1,677	1,451
Medical malpractice	1,672	2,210
Aircraft	1,388	1,693
Commercial multiple peril	1,081	1,163
Fidelity/surety	875	1,028
Reinsurance	154	3,102
Other	1,867	2,362
Total <sup>(b)</sup>	\$ 85,386	\$ 89,258

(a)

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

(b)

The decrease from the December 31, 2008 loss reserve amount was primarily due to the deconsolidation of Transatlantic.



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AIG's gross loss reserves represent 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 from this review are currently reflected in pre-tax 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

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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.

At December 31, 2009, net loss reserves decreased from the prior year-end primarily due to the divested businesses noted below. 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 net liability for unpaid claims and claims adjustment expense by business unit:**

**Years Ended December 31,**  
**(in millions)**

	<b>2009</b>	<b>2008</b>
<b>General Insurance segment:</b>		
Commercial Insurance <sup>(a)</sup>	<b>\$ 50,498</b>	\$ 48,896
Foreign General Insurance	<b>12,688</b>	10,853
<b>Total General Insurance</b>	<b>63,186</b>	59,749
<b>Noncore businesses:</b>		
Transatlantic <sup>(b)</sup>	-	7,349
21st Century <sup>(a)(b)</sup>	-	2,065
Mortgage Guaranty	<b>4,713</b>	3,004
HSB <sup>(b)</sup>	-	288
<b>Total Noncore businesses</b>	<b>4,713</b>	12,706
<b>Total net loss reserves</b>	<b>\$ 67,899</b>	\$ 72,455

(a) December 31, 2008 balances have been revised to reclassify Private Client Group into Commercial Insurance.

(b) Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009 and HSB was sold during the first quarter of 2009.

## *Discounting of Reserves*

At December 31, 2009, net loss reserves reflect a loss reserve discount of \$2.66 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 payout patterns and investment yields of the companies. Certain other liability occurrence and products liability occurrence business in AIRCO that was written by Commercial Insurance is discounted based on the yield of Department of the Treasury securities ranging from one to twenty years and the Commercial Insurance payout pattern for this business. The discount is comprised of the following: \$669 million tabular discount for workers' compensation in Commercial Insurance; \$1.9 billion non-tabular discount for workers' compensation in Commercial Insurance; \$130 million non-tabular discount for other liability occurrence and products liability occurrence in AIRCO for Commercial Insurance business. Since 1998, AIRCO has assumed on a quota share basis certain general liability and products liability business written by Commercial Insurance, and the reserves for this business are carried on a discounted basis by AIRCO.



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*Results of the Reserving Process*

AIG believes that the net loss reserves are adequate to cover net losses and loss expenses as of December 31, 2009. 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 December 31, 2009. 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. See Item 1A. Risk Factors – Casualty Insurance Underwriting and Reserves.

The following table presents the reconciliation of net loss reserves:

**Years Ended December 31,**  
**(in millions)**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net liability for unpaid claims and claims adjustment expense at beginning of year	<b>\$ 72,455</b>	<b>\$ 69,288</b>	<b>\$ 62,630</b>
Foreign exchange effect	<b>1,416</b>	<b>(2,113)</b>	<b>955</b>
Acquisitions <sup>(a)</sup>	<b>-</b>	<b>-</b>	<b>317</b>
Dispositions <sup>(b)</sup>	<b>(9,657)</b>	<b>(269)</b>	<b>-</b>
Losses and loss expenses incurred: <sup>(c)</sup>			
Current year	<b>27,359</b>	<b>35,085</b>	<b>30,261</b>
Prior years, other than accretion of discount	<b>2,771</b>	<b>118</b>	<b>(656)</b>
Prior years, accretion of discount	<b>313</b>	<b>317</b>	<b>327</b>
Losses and loss expenses incurred	<b>30,443</b>	<b>35,520</b>	<b>29,932</b>
Losses and loss expenses paid: <sup>(c)</sup>			
Current year	<b>11,082</b>	<b>13,440</b>	<b>9,684</b>
Prior years	<b>15,676</b>	<b>16,531</b>	<b>14,862</b>
Losses and loss expenses paid	<b>26,758</b>	<b>29,971</b>	<b>24,546</b>
Net liability for unpaid claims and claims adjustment expense at end of year	<b>\$ 67,899</b>	<b>\$ 72,455</b>	<b>\$ 69,288</b>

(a) Represents the opening balance with respect to the acquisition of WüBa in 2007.

(b) Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009, HSB was sold during the first quarter of 2009, and Unibanco was sold in the fourth quarter of 2008.

(c) Includes amounts related to dispositions through the date of disposition.

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

**Years Ended December 31,**
*(in millions)*
**2009      2008      2007**
**Prior Accident Year Development  
by Reporting Unit:**
**General Insurance segment:**

Commercial Insurance	\$ 2,749	\$ 23	\$ (371)
Foreign General Insurance	9	(62)	(286)

**Total General Insurance segment      2,758      (39)      (657)**
**Noncore businesses:**

Transatlantic*	(5)	(1)	88
21st Century*	(17)	87	24
Mortgage Guaranty	38	177	(25)
HSB*	(3)	(69)	(36)

**Total Noncore businesses:      13      194      51**
**Asbestos settlements      -      (37)      (50)**
**Prior years, other than accretion of  
discount**
**\$ 2,771      \$ 118      \$ (656)**

\*

*Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009 and HSB was sold during the first quarter of 2009.*

**Years Ended December 31,**
*(in millions)*
**2009      2008      2007**
**Prior Accident Year Development by Major Class of Business:**

Excess casualty (Commercial Insurance)	\$ 1,507	\$ 1,105	\$ 73
D&O and related management liability (Commercial Insurance)	(39)	(430)	(305)
Excess workers compensation (Commercial Insurance)	956	(12)	(14)
Healthcare (Commercial Insurance)	(92)	(310)	(194)
Reinsurance (Transatlantic)	(5)	(1)	88
Asbestos and environmental (primarily Commercial Insurance)	155	51	18
All other, net	289	(285)	(322)

**Prior years, other than accretion of discount      \$ 2,771      \$ 118      \$ (656)**
**Calendar Year**

**Years Ended**  
**December 31,**  
*(in millions)*

**2009      2008      2007**

Prior Accident Year  
 Development by  
 Accident Year:

**Accident Year**

2008	\$	<b>289</b>		
2007		<b>(57)</b>	\$	(370)
2006		<b>(91)</b>	(590)	\$ (1,248)
2005		<b>18</b>	(455)	(446)
2004		<b>182</b>	(335)	(428)
2003		<b>73</b>	200	37
2002		<b>126</b>	176	234
2001		<b>316</b>	238	263
2000		<b>356</b>	341	321
1999 & Prior		<b>1,559</b>	913	611

Prior years, other than  
 accretion of discount

\$ **2,771**    \$ 118    \$ (656)

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In determining the loss development from prior accident years, AIG conducts analyses to determine the change in estimated ultimate loss for each accident year for each class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that class of business. 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 reserves for the class of business 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 class of business, as appropriate, in 2009 to determine the loss development from prior accident years for 2009. As part of its 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.

### 2009 Net Loss Development

In 2009, General Insurance net loss development from prior accident years, excluding \$313 million from accretion of loss reserve discount, was adverse by approximately \$2.76 billion due to adverse development of:

\$1.51 billion relating to excess casualty business within Commercial Insurance, related to accident years 2006 and prior. This adverse development was primarily attributable to continued loss emergence in accident years 2002 and prior and increased loss emergence in accident years 2004 to 2006 significantly in excess of the historical loss emergence pattern for this class of business, resulting in AIG increasing its loss development assumptions for excess casualty business (see Net Loss Development by Class of Business below);

\$956 million pertaining to excess workers' compensation within Commercial Insurance. In 2009, Commercial Insurance experienced an emergence of losses on accident years 1999 and prior. In response to this development, AIG conducted an additional actuarial study analyzing the development patterns emanating from the AIG claims staff projections of expected ultimate cost for each open claim. This analysis resulted in AIG increasing its loss development assumptions for this long-tail class of business (see Net Loss Development by Class of Business below); and

\$151 million pertaining to asbestos claims from accident years 2002 and prior, primarily relating to Commercial Insurance.

AIG's total net loss development from prior accident years for 2009, including Noncore businesses, was adverse by approximately \$2.8 billion. Mortgage Guaranty accounted for approximately \$38 million of adverse development, relating primarily to its international business.

### 2008 Net Loss Development

In 2008, General Insurance net loss development from prior accident years was favorable by approximately \$39 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 \$317 million from accretion of loss reserve discount. Excluding both the favorable development relating to loss sensitive business and accretion of loss reserve discount, General Insurance net loss development from prior accident years in 2008 was adverse by approximately \$300 million. The overall favorable development of approximately \$39 million consisted of adverse development of:

\$1.1 billion from excess casualty business within Commercial Insurance which reflected:

higher than expected emergence for accident years 2002 and prior, and to a lesser extent accident years 2003 and 2004 (see Net Loss Development by Class of Business below);

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\$200 million from claims involving MTBE, a gasoline additive, primarily on excess casualty business within Commercial Insurance from accident years 2000 and prior; and

continued emergence of latent claims such as construction defect, product aggregate, and pharmaceutical related exposures, as well as higher than expected large loss activity (see Net Loss Development by Class of Business below).

The adverse development relating to excess casualty was offset by favorable development of:

\$660 million from business written by Lexington Insurance Company, including healthcare, catastrophic casualty, casualty and program businesses; and

\$430 million from Financial Services divisions within Commercial Insurance, including D&O and related management liability business.

The favorable development of \$339 million on loss sensitive business was offset by adverse development from other classes including primary workers compensation as well as reserves relating to reinsurance commutations and to asbestos.

AIG's total net loss development from prior accident years for 2008, including Noncore businesses, was adverse by \$118 million. Mortgage Guaranty contributed approximately \$177 million of overall adverse development in 2008, with \$159 million relating to accident year 2007.

### 2007 Net Loss Development

In 2007, General Insurance net loss development from prior accident years was favorable by approximately \$657 million, excluding approximately \$327 million from accretion of loss reserve discount. The overall favorable development of \$657 million consisted of favorable development of:

\$305 million pertaining to the D&O and related management liability classes of business within Commercial Insurance;

\$286 million pertaining to Foreign General, primarily relating to financial lines and excess casualty lines; and

\$194 million pertaining to healthcare business within Commercial Insurance.

In 2007, most classes of AIG's business continued to experience favorable development for accident years 2004 through 2006.

The favorable development was partially offset by adverse development of:

\$300 million from primary workers' compensation business within Commercial Insurance; and

\$73 million pertaining to excess casualty business within Commercial Insurance.

AIG's total net loss development from prior accident years for 2007, including Noncore businesses, was favorable by \$656 million. The noncore business prior year development included adverse development of \$88 million from Transatlantic and favorable development of \$25 million from Mortgage Guaranty.



Net Loss Development by Class of Business

The following is a discussion of the primary reasons for the development in 2009, 2008 and 2007 for those classes of business that experienced significant prior accident year developments during the three-year period. See Asbestos and Environmental Reserves below for a further discussion of asbestos and environmental reserves and development.

Excess Casualty: Excess Casualty reserves experienced significant adverse loss development in 2009 and 2008, following relatively minor adverse development in 2007. However, all three years exhibited significant adverse development from accident years 2002 and prior. The increase in loss costs resulted primarily from medical inflation, which increased the economic loss component of tort claims, advances in medical care, which extended the life span of severely injured claimants, and larger jury verdicts, which increased the value of severe tort claims. An additional factor affecting AIG's excess casualty experience in recent years has been the exhaustion of underlying primary

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policies for products liability coverage and for homebuilders. This has led to increased loss emergence relating to claims involving exhaustion of underlying product aggregates and increased construction defect-related claims activity on AIG's excess and umbrella policies. Many excess casualty policies were written on a multi-year basis in the late 1990s, which limited AIG's ability to respond to emerging market trends as rapidly as would otherwise be the case. In subsequent years, AIG responded to these emerging trends by increasing rates and implementing numerous policy form and coverage changes. This led to a significant improvement in experience beginning with accident year 2001. In 2007 and 2008, a significant portion of the adverse development from accident years 2002 and prior also related to latent exposures, including pharmaceutical exposures as well as the construction defect and product aggregate related exposures noted above. AIG's exposure to these latent exposures was sharply reduced after 2002 due to significant changes in policy terms and conditions as well as underwriting guidelines. Another contributor to the adverse development during 2007 through 2009 is that actual loss development for other large losses for accident years 1998 and subsequent have emerged at higher than expected levels as compared to the loss emergence pattern exhibited from earlier accident years. This has caused significant additional development for accident years 1998 to 2002, and to a lesser extent for accident years 2003 to 2006. In 2009 the vast majority of the prior accident year development was attributable to the loss emergence significantly exceeding the historical average for this class of business.

For the year-end 2009 loss reserve review, in response to significantly higher than expected loss emergence, AIG reviewed the indicated reserves for excess casualty under a variety of loss development assumptions. These assumptions ranged from long term loss development averages, which utilized all or nearly all of the historical data for this class, to short term averages which utilized only the latest three to five calendar years of loss development experience. AIG gave greater recognition to the recent calendar year experience, resulting in significantly higher loss development factor assumptions for the year-end 2009 loss reserve review. This change in loss development assumptions increased the excess casualty reserves by approximately \$815 million for accident years 2006 and prior. Additionally, in conjunction with the selection of higher loss development factors described above, AIG assigned greater credibility to the emerging loss development factors for product aggregate-related claims, which are reviewed separately. This resulted in an increase of approximately \$195 million in reserves, primarily for accident years 2000 and prior. In the 2008 review of the product aggregate-related loss development, only partial credibility had been given to the emerging loss development experience for product aggregate-related claims. Finally, AIG claims staff updated its review of accounts with significant exposure to construction defect-related claims. This resulted in an increase of approximately \$65 million.

For the year-end 2008 loss reserve review, AIG claims staff updated its review of accounts with significant exposure to construction defect-related claims. In response to the continued upward developments on these claims, and based on an updated analysis of this development, AIG increased the reserves by an additional \$75 million beyond the increases identified in the claims review. In response to the continued adverse development of product aggregate related claims during 2007 and 2008, AIG's actuaries conducted a special analysis of product aggregate-related claims development, resulting in an increase in the IBNR reserve for this exposure of \$175 million. In response to the high level of pharmaceutical related claim emergence during 2007 and 2008, AIG claims staff reviewed the remaining exposure, and based on this review an additional reserve of \$10 million was established. In response to the much greater than expected actual loss emergence for other large losses for accident years 1998 and subsequent during 2007 and 2008, AIG's actuaries increased the loss development factor assumptions for this business, resulting in a further increase of approximately \$200 million in loss reserves for this class. In total, the specific increases in reserves related to these items increased the excess casualty reserves by approximately \$460 million during 2008, of which \$370 million was recognized in AIG's fourth quarter 2008 results. In the first three months of 2008, AIG also recognized approximately \$200 million of losses relating to MTBE, a gasoline additive, which primarily related to excess casualty business from accident years 2000 and prior.

For the year-end 2007 loss reserve review, AIG claims staff updated its review of accounts with significant exposure to construction defect-related claims. AIG's actuaries determined that no significant changes in the assumptions were required. Prior accident year loss development in 2007 was adverse by approximately \$75 million, a minor amount for this class of business. However, AIG continued to experience adverse development in this class for accident years 2002 and prior, amounting to approximately \$450 million in 2007. In addition, loss reserves developed adversely for accident year 2003 by approximately \$100 million in 2007 for this class. The loss ratio for accident year 2003 remained

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very favorable for this class and had been relatively stable over the past several years. Favorable development in 2007 for accident years 2004 through 2006 largely offset the adverse development from accident years 2003 and prior. A significant portion of the adverse development from accident years 2002 and prior related to the latent exposures described in the 2008 discussion.

Loss reserves pertaining to the excess casualty class of business are generally included in the other liability occurrence line of business, with a small portion of the excess casualty reserves included in the other liability claims made line of business, as presented in the table above.

**Excess Workers' Compensation:** AIG experienced significant adverse development for this class during 2009, following two years of immaterial development in 2007 and 2008. Excess workers' compensation is an extremely long-tail class of business, with loss emergence extending for decades. For the mature accident years, AIG utilizes claims projections provided by AIG claims staff to help determine the loss development factors for this class of business.

For the year-end 2009 loss reserve review, AIG increased the loss development assumptions for this class of business, resulting in approximately a \$925 million increase in reserves. The increased loss development assumptions were based on an additional actuarial study performed by AIG in response to the emergence of losses in accident years 1999 and prior. This study analyzed the development patterns emanating from the AIG claims staff projections of expected ultimate cost for each open claim. No significant changes in assumptions were made in either the year-end 2008 or year-end 2007 loss reserve reviews.

**D&O and Related Management Liability Classes of Business:** AIG experienced a significant favorable development during 2007 and 2008, but only a relatively minor amount of favorable development in 2009. The favorable development throughout the three-year period related primarily to accident years 2004 and 2005, and to a lesser extent accident years 2003 and 2006. Loss cost trends for D&O and related management liability classes of business were adverse in accident years 2002 and prior due to a variety of factors, including an increase in frequency and severity of corporate bankruptcies; the increase in the frequency of financial restatements; the sharp rise in market capitalization of publicly traded companies; and the increase in the number of initial public offerings. The 2003 through 2006 period was marked by a significant reduction in claims related to these factors; thus the expected loss ratios initially established for these accident years have developed favorably, particularly for 2004 and 2005. Beginning in accident year 2007, claims relating to the credit crisis have resulted in increased overall claim activity, and accident year 2007 reserves developed adversely by a relatively insignificant amount during 2008. During 2009, reserves developed adversely for accident year 2008; however this was offset by continued favorable development from earlier accident years particularly 2004 through 2007. AIG utilizes ground up claims projections by AIG claims staff as a benchmark to select the loss reserves for this business; these projections are updated annually.

For the year-end 2009 loss reserve review, AIG's actuaries took into account the favorable development for accident years 2007 and prior, as well as adverse development from accident year 2008. In response to the emerging favorable development observed in the ground up claims projections by AIG claims staff over the past several years, AIG considered both the higher than expected initial claim projections for accident year 2008 as well as the favorable developments for the claims projections from the earlier accident years in determining the loss ratio for accident year 2009.

For the year-end 2008 loss reserve review, AIG's actuaries took into account the favorable loss emergence for accident years 2006 and prior. They determined that, in order to respond to the significant favorable loss emergence during 2007 and 2008, greater weight should be applied to the improving loss experience for accident years 2006 and prior. Loss reserve selections therefore gave increased weight to the improved experience and less weight to the ground-up claim projections for these accident years, as the experience has continued to improve relative to the claim benchmark that was originally established for these accident years. For accident year 2007, the claim projections include claims relating to the credit crisis. The recognition of these projections resulted in a significant increase in loss reserves for some D&O subclasses. However this was partially offset by favorable loss development for other subclasses that were significantly less affected by the credit crisis. The overall development for accident year 2007 was thus only a modest increase in loss reserves. The reserves established for accident year 2008 reflect AIG's expectation of increased claim activity relating to the credit crisis. Given the uncertainty of the ultimate development from claims

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relating to the credit crisis in accident years 2007 and 2008, there is a greater than normal potential variation in the loss ratios for these accident years. The increased responsiveness to the improving loss trends for accident years 2006 and prior resulted in approximately \$225 million of favorable loss development in the fourth quarter of 2008 for this business, primarily in accident years 2004 and 2005.

For the year-end 2007 loss reserve review, AIG's actuaries determined that no significant changes in the assumptions were required. Prior accident year reserve development in 2007 was favorable by approximately \$305 million, due primarily to favorable development from accident years 2004 and 2005, and to a lesser extent 2003 and 2006. AIG's actuaries continued to benchmark the loss reserve indications to the ground-up claim projections provided by AIG claims staff for this class of business. For the year-end 2007 loss reserve review, the ground-up claim projections included all accident years through 2006, and included stock options backdating-related exposures from accident year 2006.

Loss reserves pertaining to D&O and related management liability classes of business are included in the other liability claims made line of business, as presented in the table above.

**Healthcare:** Healthcare business written by Commercial Insurance produced moderate favorable development in 2007 and 2009 and significant favorable development in 2008. Healthcare loss reserves have benefited from favorable market conditions and an improved legal environment in accident years 2002 and subsequent, following a period of adverse loss trends and market conditions that began in the mid 1990's. For the year-end 2008 loss reserve review, AIG's actuaries responded to the consistently favorable experience observed during the latest three years by utilizing more responsive assumptions relating to loss development factors, loss trend factors, and expected loss ratios for this business. These modified assumptions resulted in approximately \$140 million of additional favorable development that was recognized in the fourth quarter of 2008 for this business. No significant changes in assumptions were made for the year-end 2009 loss reserve review.

### *Overview of Loss Reserving Process*

The General Insurance loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting principally of property, personal lines and certain casualty classes. The other group is long-tail casualty classes of business which includes excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes.

### Short-Tail Reserves

For operations writing short-tail coverages, such as property coverages, the process of recording quarterly loss reserves is generally geared toward maintaining an appropriate reserve for the outstanding exposure, rather than determining an expected loss ratio for current business. For example, the IBNR reserve required for a class of property business might be expected to approximate 20 percent of the latest year's earned premiums, and this level of reserve would generally be maintained regardless of the loss ratio emerging in the current quarter. The 20 percent factor would be adjusted to reflect changes in rate levels, loss reporting patterns, known exposure to unreported losses, or other factors affecting the particular class of business.

### Long-Tail Reserves

Estimation of ultimate net losses and loss expenses (net losses) for long-tail casualty classes of business is a complex process and depends on a number of factors, including the class and volume of business involved. Experience in the more recent accident years of long-tail casualty classes of business shows limited statistical credibility in reported net losses because a relatively low proportion of net losses would be reported claims and expenses and an even smaller percentage would be net losses paid. Therefore, IBNR would constitute a relatively high proportion of net losses.

AIG's carried net long-tail loss reserves are tested using loss trend factors that AIG considers appropriate for each class of business. A variety of actuarial methods and assumptions is normally employed to estimate net losses for long-tail casualty classes of business. These methods ordinarily involve the use of loss trend factors intended to reflect the annual growth in loss costs from one accident year to the next. For the majority of long-tail casualty classes of



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business, net loss trend factors approximated five percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms, current and future estimates of monetary inflation and social inflation and increases in litigation and awards. These factors are periodically reviewed and adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs.

A number of actuarial assumptions are generally made in the review of reserves for each class of business. For longer-tail classes of business, actuarial assumptions generally are made with respect to the following:

Loss trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.

Expected loss ratios for the latest accident year (i.e., accident year 2009 for the year-end 2009 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend (see above) and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

Loss development factors which are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.

AIG records quarterly changes in loss reserves for each of its many General Insurance classes of business. The overall change in AIG's loss reserves is based on the sum of these classes of business changes. For most long-tail classes of business, the process of recording quarterly loss reserve changes involves determining the estimated current loss ratio for each class of coverage. This loss ratio is multiplied by the current quarter's net earned premium for that class of coverage to determine the current accident quarter's total estimated net incurred loss and loss expense. The change in loss reserves for the quarter for each class is thus the difference between the net incurred loss and loss expense, estimated as described above, and the net paid losses and loss expenses in the quarter. Also, any change in estimated ultimate losses from prior accident years, either positive or negative, is reflected in the loss reserve for the current quarter.

*Details of the Loss Reserving Process*

The process of determining the current loss ratio for each class of business is based on a variety of factors. These include, but are not limited to, the following considerations: prior accident year and policy year loss ratios; rate changes; changes in coverage, reinsurance, or mix of business; and actual and anticipated changes in external factors affecting results, such as trends in loss costs or in the legal and claims environment. The current loss ratio for each class of business reflects input from actuarial, underwriting and claims staff and is intended to represent management's best estimate of the current loss ratio after reflecting all of the factors described above. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios remain appropriate. This process includes a review of the actual claims experience in the quarter, actual rate changes achieved, actual changes in coverage, reinsurance or mix of business, and changes in certain other factors that may affect the loss ratio. When this review suggests that the initially determined loss ratio is no longer appropriate, the loss ratio for current business is changed to reflect the revised assumptions.

A comprehensive annual loss reserve review is completed in the fourth quarter of each year for each AIG General Insurance subsidiary. These reviews are conducted in full detail for each class of business for each subsidiary, and thus consist of hundreds of individual analyses. The purpose of these reviews is to confirm the appropriateness of the reserves carried by each of the individual subsidiaries, and therefore of AIG's overall carried reserves. The reserve analysis for each class of business is performed by the actuarial personnel who are most familiar with that class of business. In completing these detailed actuarial reserve analyses, the actuaries are required to make numerous assumptions, including the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial methods to employ for each business class. Additionally, they must determine the appropriate segmentation of data from which the adequacy of the reserves can be most accurately



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tested. In the course of these detailed reserve reviews an actuarial central estimate of the loss reserve is determined. The sum of these central estimates for each class of business for each subsidiary provides an overall actuarial central estimate of the loss reserve for that subsidiary. The ultimate process by which the actual carried reserves are determined considers both the internal actuarial central estimate and numerous other internal and external factors including a qualitative assessment of inflation and other economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environment, underlying policy pricing, terms and conditions, and claims handling, as well as third party actuarial reviews that are periodically performed for key classes of business. Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

Actuarial Methods for Major Classes of Business

In testing the reserves for each class of business, a determination is made by AIG's actuaries as to the most appropriate actuarial methods. This determination is based on a variety of factors including the nature of the claims associated with the class of business, such as frequency or severity. Other factors considered include the loss development characteristics associated with the claims, the volume of claim data available for the applicable class, and the applicability of various actuarial methods to the class. In addition to determining the actuarial methods, the actuaries determine the appropriate loss reserve groupings of data. For example, AIG writes a great number of unique subclasses of professional liability. For pricing or other purposes, it is appropriate to evaluate the profitability of each subclass individually. However, for purposes of estimating the loss reserves for professional liability, it is appropriate to combine the subclasses into larger groups. The greater degree of credibility in the claims experience of the larger groups may outweigh the greater degree of homogeneity of the individual subclasses. This determination of data segmentation and actuarial methods is carefully considered for each class of business. The segmentation and actuarial methods chosen are those which together are expected to produce the most accurate estimate of the loss reserves.

Actuarial methods used by AIG for most long-tail casualty classes of business include loss development methods and expected loss ratio methods, including "Bornhuetter Ferguson" methods described below. Other methods considered include frequency/severity methods, although these are generally used by AIG more for pricing analysis than for loss reserve analysis. Loss development methods utilize the actual loss development patterns from prior accident years to project the reported losses to an ultimate basis for subsequent accident years. Loss development methods generally are most appropriate for classes of business which exhibit a stable pattern of loss development from one accident year to the next, and for which the components of the classes have similar development characteristics. For example, property exposures would generally not be combined into the same class as casualty exposures, and primary casualty exposures would generally not be combined into the same class as excess casualty exposures. Expected loss ratio methods are generally utilized by AIG where the reported loss data lacks sufficient credibility to utilize loss development methods, such as for new classes of business or for long-tail classes at early stages of loss development.

Expected loss ratio methods rely on the application of an expected loss ratio to the earned premium for the class of business to determine the loss reserves. For example, an expected loss ratio of 70 percent applied to an earned premium base of \$10 million for a class of business would generate an ultimate loss estimate of \$7 million. Subtracting any reported paid losses and loss expense would result in the indicated loss reserve for this class. "Bornhuetter Ferguson" methods are expected loss ratio methods for which the expected loss ratio is applied only to the expected unreported portion of the losses. For example, for a long-tail class of business for which only 10 percent of the losses are expected to be reported at the end of the accident year, the expected loss ratio would be applied to the 90 percent of the losses still unreported. The actual reported losses at the end of the accident year would be added to determine the total ultimate loss estimate for the accident year. Subtracting the reported paid losses and loss expenses would result in the indicated loss reserve. In the example above, the expected loss ratio of 70 percent would be multiplied by 90 percent. The result of 63 percent would be applied to the earned premium of \$10 million resulting in an estimated unreported loss of \$6.3 million. Actual reported losses would be added to arrive at the total ultimate losses. If the reported losses were \$1 million, the ultimate loss estimate under the "Bornhuetter Ferguson" method would be \$7.3 million versus the \$7 million amount under the expected loss ratio method described above. Thus, the "Bornhuetter Ferguson" method gives partial credibility to the actual loss experience to date for the class of business. Loss development methods generally give full credibility to the reported loss experience to date. In the example above, loss development methods would typically indicate an ultimate loss estimate of \$10 million, as the reported losses of \$1 million would be estimated to reflect only 10 percent of the ultimate losses.



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A key advantage of loss development methods is that they respond quickly to any actual changes in loss costs for the class of business. Therefore, if loss experience is unexpectedly deteriorating or improving, the loss development method gives full credibility to the changing experience. Expected loss ratio methods would be slower to respond to the change, as they would continue to give more weight to the expected loss ratio, until enough evidence emerged for the expected loss ratio to be modified to reflect the changing loss experience. On the other hand, loss development methods have the disadvantage of overreacting to changes in reported losses if in fact the loss experience is not credible. For example, the presence or absence of large losses at the early stages of loss development could cause the loss development method to overreact to the favorable or unfavorable experience by assuming it will continue at later stages of development. In these instances, expected loss ratio methods such as "Bornhuetter Ferguson" have the advantage of properly recognizing large losses without extrapolating unusual large loss activity onto the unreported portion of the losses for the accident year. AIG's loss reserve reviews for long-tail classes typically utilize a combination of both loss development and expected loss ratio methods. Loss development methods are generally given more weight for accident years and classes of business where the loss experience is highly credible. Expected loss ratio methods are given more weight where the reported loss experience is less credible, or is driven more by large losses. Expected loss ratio methods require sufficient information to determine the appropriate expected loss ratio. This information generally includes the actual loss ratios for prior accident years, and rate changes as well as underwriting or other changes which would affect the loss ratio. Further, an estimate of the loss cost trend or loss ratio trend is required in order to allow for the effect of inflation and other factors which may increase or otherwise change the loss costs from one accident year to the next.

Frequency/severity methods generally rely on the determination of an ultimate number of claims and an average severity for each claim for each accident year. Multiplying the estimated ultimate number of claims for each accident year by the expected average severity of each claim produces the estimated ultimate loss for the accident year. Frequency/severity methods generally require a sufficient volume of claims in order for the average severity to be predictable. Average severity for subsequent accident years is generally determined by applying an estimated annual loss cost trend to the estimated average claim severity from prior accident years. Frequency/severity methods have the advantage that ultimate claim counts can generally be estimated more quickly and accurately than can ultimate losses. Thus, if the average claim severity can be accurately estimated, these methods can more quickly respond to changes in loss experience than other methods. However, for average severity to be predictable, the class of business must consist of homogeneous types of claims for which loss severity trends from one year to the next are reasonably consistent. Generally these methods work best for high frequency, low severity classes of business such as personal auto. AIG also utilizes these methods in pricing subclasses of professional liability. However, AIG does not generally utilize frequency/severity methods to test loss reserves, due to the general nature of AIG's reserves being applicable to lower frequency, higher severity commercial classes of business where average claim severity is volatile.

**Excess Casualty:** AIG generally uses a combination of loss development methods and expected loss ratio methods for excess casualty classes. Expected loss ratio methods are generally utilized for at least the three latest accident years, due to the relatively low credibility of the reported losses. The loss experience is generally reviewed separately for lead umbrella classes and for other excess classes, due to the relatively shorter tail for lead umbrella business. Automobile-related claims are generally reviewed separately from non-auto claims, due to the shorter-tail nature of the automobile-related claims. Claims relating to certain latent exposures such as construction defects or exhaustion of underlying product aggregate limits are reviewed separately due to the unique emergence patterns of losses relating to these claims. The expected loss ratios utilized for recent accident years are based on the projected ultimate loss ratios of prior years, adjusted for rate changes, estimated loss cost trends and all other changes that can be quantified. The estimated loss cost trend utilized in the year-end 2009 reviews averaged approximately five percent for excess casualty classes. Frequency/severity methods are generally not utilized as the vast majority of reported claims do not result in a claim payment. In addition, the average severity varies significantly from accident year to accident year due to large losses which characterize this class of business, as well as changing proportions of claims which do not result in a claim payment.

**D&O:** AIG generally utilizes a combination of loss development methods and expected loss ratio methods for D&O and related management liability classes of business. Expected loss ratio methods are given more weight in the

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two most recent accident years, whereas loss development methods are given more weight in more mature accident years. In addition to these traditional actuarial methods, AIG's actuaries utilize ground-up claim projections provided by AIG claims staff as a benchmark for determining the indicated ultimate losses for all accident years other than the most recent accident year. For the year-end 2009 loss reserve review, claims projections for accident years 2008 and prior were utilized. These classes of business reflect claims made coverage, and losses are characterized by low frequency and high severity. Thus, the claim projections can produce an overall indicator of the ultimate loss exposure for these classes by identifying and estimating all large losses. Frequency/severity methods are generally not utilized for these classes as the overall losses are driven by large losses more than by claim frequency. Severity trends have varied significantly from accident year to accident year.

**Workers' Compensation:** AIG generally utilizes loss development methods for all but the most recent accident year. Expected loss ratio methods generally are given significant weight only in the most recent accident year. Workers' compensation claims are generally characterized by high frequency, low severity, and relatively consistent loss development from one accident year to the next. AIG is a leading writer of workers' compensation, and thus has sufficient volume of claims experience to utilize development methods. AIG does not believe frequency/severity methods are as appropriate, due to volume changes in AIG's workers' compensation business over the years. AIG generally segregates California business from other business in evaluating workers' compensation reserves. Certain classes of workers' compensation, such as construction, are also evaluated separately. Additionally, AIG writes a number of very large accounts which include workers' compensation coverage. These accounts are generally priced by AIG actuaries, and to the extent appropriate, the indicated losses based on the pricing analysis may be utilized to record the initial estimated loss reserves for these accounts.

**Excess Workers' Compensation:** AIG generally utilizes a combination of loss development methods and expected loss ratio methods. Loss development methods are given the greater weight for mature accident years such as 2002 and prior. Expected loss ratio methods are given the greater weight for the more recent accident years. Excess workers' compensation is an extremely long-tail class of business, with loss emergence extending for decades. Therefore there is limited credibility in the reported losses for many of the more recent accident years. For the mature accident years, AIG's actuaries utilize claims projections provided by AIG claims staff to help determine the loss development factors for this class of business.

**General Liability:** AIG generally uses a combination of loss development methods and expected loss ratio methods for primary general liability or products liability classes. For certain classes of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent one or two accident years, whereas for smaller or more volatile classes of business, loss development methods may be given limited weight for the five or more most recent accident years. Expected loss ratio methods would be utilized for the more recent accident years for these classes. The loss experience for primary general liability business is generally reviewed at a level that is believed to provide the most appropriate data for reserve analysis. For example, primary claims made business is generally segregated from business written on an occurrence policy form. Additionally, certain subclasses, such as construction, are generally reviewed separately from business in other subclasses. Due to the fairly long-tail nature of general liability business, and the many subclasses that are reviewed individually, there is less credibility in the reported losses and increased reliance on expected loss ratio methods. AIG's actuaries generally do not utilize frequency/severity methods to test reserves for this business, due to significant changes and growth in AIG's general liability and products liability business over the years.

**Commercial Automobile Liability:** AIG generally utilizes loss development methods for all but the most recent accident year for commercial automobile classes of business. Expected loss ratio methods are generally given significant weight only in the most recent accident year. Frequency/severity methods are generally not utilized due to significant changes and growth in this business over the years.

**Healthcare:** AIG generally uses a combination of loss development methods and expected loss ratio methods for healthcare classes of business. The largest component of the healthcare business consists of coverage written for hospitals and other healthcare facilities. Reserves for excess coverage are tested separately from those for primary coverage. For primary coverages, loss development methods are generally given the majority of the weight for all but

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the latest three accident years, and are given some weight for all years other than the latest accident year. For excess coverages, expected loss methods are generally given all the weight for the latest three accident years, and are also given considerable weight for accident years prior to the latest three years. For other classes of healthcare coverage, an analogous weighting between loss development and expected loss ratio methods is utilized. The weights assigned to each method are those which are believed to result in the best combination of responsiveness and stability. Frequency/severity methods are sometimes utilized for pricing certain healthcare accounts or business. However, in testing loss reserves the business is generally combined into larger groupings to enhance the credibility of the loss experience. The frequency/severity methods that are applicable in pricing may not be appropriate for reserve testing and thus frequency/severity methods are not generally employed in AIG's healthcare reserve analyses.

**Professional Liability:** AIG generally uses a combination of loss development methods and expected loss ratio methods for professional liability classes of business. Loss development methods are used for the more mature accident years. Greater weight is given to expected loss ratio methods in the more recent accident years. Reserves are tested separately for claims made classes and classes written on occurrence policy forms. Further segmentations are made in a manner believed to provide an appropriate balance between credibility and homogeneity of the data. Frequency/severity methods are used in pricing and profitability analyses for some classes of professional liability; however, for loss reserve testing, the need to enhance credibility generally results in classes that are not sufficiently homogenous to utilize frequency/severity methods.

**Catastrophic Casualty:** AIG utilizes expected loss ratio methods for all accident years for catastrophic casualty business. This class of business consists of casualty or financial lines coverage which attaches in excess of very high attachment points; thus the claims experience is marked by very low frequency and high severity. Because of the limited number of claims, loss development methods are not utilized. The expected loss ratios and loss development assumptions utilized are based upon the results of prior accident years for this business as well as for similar classes of business written above lower attachment points. The business is generally written on a claims made basis. AIG utilizes ground-up claim projections provided by AIG claims staff to assist in developing the appropriate reserve.

**Aviation:** AIG generally uses a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods are used for all but the latest accident year to determine the loss reserves. Expected loss ratio methods are used to determine the loss reserves for the latest accident year. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.

**Personal Auto (Domestic):** AIG generally utilizes frequency/severity methods and loss development methods for domestic personal auto classes. For many classes of business, greater reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto and allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.

**Fidelity/Surety:** AIG generally uses loss development methods for fidelity exposures for all but the latest accident year. Expected loss ratio methods are also given weight for the more recent accident years, and for the latest accident year they may be given 100 percent weight. For surety exposures, AIG generally uses the same method as for short-tail classes.

**Mortgage Guaranty:** AIG tests mortgage guaranty reserves using loss development methods, supplemented by an internal claim analysis by actuaries and staff who specialize in the mortgage guaranty business. The claim analysis projects ultimate losses for claims within each of several categories of delinquency based on actual historical experience and is essentially a frequency/severity analysis for each category of delinquency. Additional reserve tests using "Bornhuetter Ferguson" methods are also employed, as well as tests measuring losses as a percent of risk in force. Reserves are reviewed separately for each class of business to consider the loss development characteristics associated with the claims, the volume of claim data available for the applicable class and the applicability of various actuarial methods to the class.

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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. Mortgage Guaranty losses and loss adjustment expenses have been adversely affected by macroeconomic events, such as declining home prices and increasing unemployment among other events related to the turmoil in the financial markets. As these macroeconomic events change, adversely or favorably, the determination of the ultimate losses and loss adjustment expenses requires a high degree of judgment. Responding to these adverse macroeconomic influences, Mortgage Guaranty added significant resources to its loss mitigation and claims paying operations during the second half of 2009. This group has found increased occurrences of fraudulent claims, underwriting guideline violations and other deviations from contractual terms, mostly related to the 2006 and 2007 blocks of business. These policy violations resulted in increased loan rescissions and increased claims denials (collectively referred to as rescissions) during the fourth quarter of 2009. Mortgage Guaranty rescinded \$137 million of claims on first lien business during the fourth quarter of 2009. Second lien rescissions were primarily on claims related to policies that had reached their respective stop loss limits. In 2009, Mortgage Guaranty did not record any significant changes to its expected losses and loss adjustment expense reserves as a result of these increased rescissions. Mortgage Guaranty expects this increased rescission activity to continue in 2010, but cannot reasonably estimate the financial impact from these rescissions. AIG believes it has provided appropriate reserves for currently delinquent loans, consistent with industry practices.

**Short-Tail Classes:** AIG generally uses either loss development methods or IBNR factor methods to set reserves for short-tail classes such as property coverages. Where a factor is used, it generally represents a percent of earned premium or other exposure measure. The factor is determined based on prior accident year experience. For example, the IBNR for a class of property coverage might be expected to approximate 20 percent of the latest year's earned premium. The factor is continually reevaluated in light of emerging claim experience as well as rate changes or other factors that could affect the adequacy of the IBNR factor being employed.

**International:** Business written by AIG's Foreign General Insurance operating segment includes both long-tail and short-tail classes of business. For long-tail classes of business, the actuarial methods utilized would be analogous to those described above. However, the majority of business written by Foreign General Insurance is short-tail, high frequency and low severity in nature. For this business, loss development methods are generally employed to test the loss reserves. AIG maintains a database of detailed historical premium and loss transactions in original currency for business written by Foreign General Insurance, thereby allowing AIG actuaries to determine the current reserves without any distortion from changes in exchange rates over time. In testing the Foreign General Insurance reserves, AIG's actuaries segment the data by region, country or class of business as appropriate to determine an optimal balance between homogeneity and credibility.

**Loss Adjustment Expenses:** AIG determines reserves for legal defense and cost containment loss adjustment expenses for each class of business by one or more actuarial methods. The methods generally include development methods analogous to those described for loss development methods. The developments could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar classes of business. AIG generally determines reserves for adjuster loss adjustment expenses based on calendar year ratios of adjuster expenses paid to losses paid for the particular class of business. AIG generally determines reserves for other unallocated loss adjustment expenses based on the ratio of the calendar year expenses paid to overall losses paid. This determination is generally done for all classes of business combined, and reflects costs of home office claim overhead as a percent of losses paid.

**Catastrophes:** Special analyses are conducted by AIG in response to major catastrophes in order to estimate AIG's gross and net loss and loss expense liability from the events. These analyses may include a combination of

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approaches, including modeling estimates, ground-up claim analysis, loss evaluation reports from on-site field adjusters, and market share estimates.

AIG's loss reserve analyses do not calculate a range of loss reserve estimates. Because a large portion of the loss reserves from AIG's General Insurance business relates to longer-tail casualty classes of business driven by severity rather than frequency of claims, such as excess casualty and D&O, developing a range around loss reserve estimates would not be meaningful. Using the reserving methodologies described above, AIG's actuaries determine their best estimate of the required reserve and advise management of that amount. AIG then adjusts its aggregate carried reserves as necessary so that the actual carried reserves as of December 31 reflect this best estimate.

Volatility of Reserve Estimates and Sensitivity Analyses

As described above, AIG uses numerous assumptions in determining its best estimate of reserves for each class of business. The importance of any specific assumption can vary by both class of business and accident year. If actual experience differs from key assumptions used in establishing reserves, there is potential for significant variation in the development of loss reserves, particularly for long-tail casualty classes of business such as excess casualty, D&O or primary and excess workers' compensation. Set forth below is a sensitivity analysis that estimates the effect on the loss reserve position of using alternative loss trend or loss development factor assumptions rather than those actually used in determining AIG's best estimates in the year-end loss reserve analyses in 2009. The analysis addresses each major class of business for which a material deviation to AIG's overall reserve position is believed reasonably possible, and uses what AIG believes is a reasonably likely range of potential deviation for each class. There can be no assurance, however, that actual reserve development will be consistent with either the original or the adjusted loss trend or loss development factor assumptions, or that other assumptions made in the reserving process will not materially affect reserve development for a particular class of business.

**Excess Casualty:** For the excess casualty class of business, the assumed loss cost trend was approximately five percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in AIG's judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2009 loss reserve review for excess casualty will range from negative five percent to positive 15 percent, or approximately ten percent lower or higher than the assumption actually utilized in the year-end 2009 reserve review. A ten percent change in the assumed loss cost trend for excess casualty would cause approximately a \$2.2 billion increase or a \$1.6 billion decrease in the net loss and loss expense reserve for this class of business. It should be emphasized that the ten percent deviations are not considered the highest possible deviations that might be expected, but rather what is considered by AIG to reflect a reasonably likely range of potential deviation. Actual loss cost trends in the early 1990s were negative for several years, including amounts below the negative five percent cited above, whereas actual loss cost trends in the late 1990s ran well into the double digits for several years, including amounts greater than the 15 percent cited above. Thus, there can be no assurance that loss trends will not deviate by more than ten percent. The loss cost trend assumption is critical for the excess casualty class of business due the long-tail nature of the claims and therefore is applied across many accident years.

For the excess casualty class of business, the assumed loss development factors are also a key assumption. After evaluating the historical loss development factors from prior accident years since the early 1990s, in AIG's judgment, it is reasonably likely that actual loss development factors will range from approximately 8.2 percent below those actually utilized in the year-end 2009 reserve review to approximately 8.0 percent above those factors actually utilized. If the loss development factor assumptions were changed by 8.2 percent and 8.0 percent, respectively, the net loss reserves for the excess casualty class would decrease by approximately \$1.3 billion under the lower assumptions or increase by approximately \$1.2 billion under the higher assumptions. 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, or that they will not deviate by more than the amounts illustrated above. Moreover, as excess casualty is a long-tail class of business, 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 the reserves with respect to a number of accident years to be significantly affected by changes in the loss cost trends or loss development factors that were initially relied upon

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in setting the reserves. These changes in loss trends or loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting claims. Thus, there is the potential for variations greater than the amounts cited above, either positively or negatively.

**D&O and Related Management Liability Classes of Business:** For D&O and related management liability classes of business, the assumed loss cost trend was approximately four percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, including the potential effect of recent claims relating to the credit crisis, in AIG's judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2009 loss reserve review for these classes will range from negative 11 percent to positive 24 percent, or approximately 15 percent lower or 20 percent higher than the assumption actually utilized in the year-end 2009 reserve review. A 20 or 15 percent change in the assumed loss cost trend for these classes would cause approximately a \$950 million increase or a \$600 million decrease, respectively, in the net loss and loss expense reserves for these classes of business. It should be emphasized that the 20 and 15 percent deviations are not considered the highest possible deviations that might be expected, but rather what is considered by AIG to reflect a reasonably likely range of potential deviation. Actual loss cost trends for these classes since the early 1990s were negative for several years, including amounts below the negative 11 percent cited above, whereas actual loss cost trends exceeded the 24 percent figure cited above for several other years. Because the D&O class of business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation.

For D&O and related management liability classes of business, the assumed loss development factors are also an important assumption but less critical than for excess casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for excess casualty. However, the high severity nature of the claims does create the potential for significant deviations in loss development patterns from one year to the next. After evaluating the historical loss development factors for these classes of business for accident years since the early 1990s, in AIG's judgment, it is reasonably likely that actual loss development factors will range from approximately 4 percent lower to 6 percent higher than those factors actually utilized in the year-end 2009 loss reserve review for these classes. If the loss development factor assumptions were changed by 4 percent and 6 percent, respectively, the net loss reserves for these classes would be estimated to decrease or increase by approximately \$200 million and \$300 million, respectively. As noted above for excess casualty, actual historical loss development factors are generally 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, or that they will not deviate by more than the 4 percent or 6 percent amounts.

**Excess Workers' Compensation:** For excess workers' compensation business, loss costs were trended at six percent per annum. After reviewing actual industry loss trends for the past ten years, in AIG's judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2009 loss reserve review for excess workers' compensation will range five percent lower or higher than this estimated loss trend. A five percent change in the assumed loss cost trend would cause approximately a \$300 million increase or a \$200 million decrease in the net loss reserves for this business. It should be emphasized that the actual loss cost trend could vary significantly from this assumption, and there can be no assurance that actual loss costs will not deviate, perhaps materially, by greater than five percent.

For excess workers' compensation business, the assumed loss development factors are a critical assumption. Excess workers' compensation is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. After evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up claim projections utilized to help select the loss development factors in the tail for this class of business, in AIG's judgment, it is reasonably likely that actual loss development for excess workers' compensation could increase or decrease by up to approximately \$800 million and \$1.3 billion, respectively. Given the exceptionally long tail for this class of business, there is the potential for actual deviations in the loss development tail to exceed the deviations assumed, perhaps materially.

**Primary Workers' Compensation:** For primary workers' compensation, the loss cost trend assumption is not believed to be material with respect to AIG's loss reserves. This is primarily because AIG's actuaries are generally

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able to use loss development projections for all but the most recent accident year's reserves, so there is limited need to rely on loss cost trend assumptions for primary workers' compensation business.

However, for primary workers' compensation business the loss development factor assumptions are important. Generally, AIG's actual historical workers' compensation loss development factors would be expected to provide a reasonably accurate predictor of future loss development. However, workers' compensation is a long-tail class of business, and AIG's business reflects a very significant volume of losses particularly in recent accident years. After evaluating the actual historical loss developments since the 1980s for this business, in AIG's judgment, it is reasonably likely that actual loss development factors will fall within the range of approximately 3.5 percent below to 9.1 percent above those actually utilized in the year-end 2009 loss reserve review. If the loss development factor assumptions were changed by 3.5 percent and 9.1 percent, respectively, the net loss reserves for workers' compensation would decrease or increase by approximately \$900 million and \$2.5 billion, respectively. For this class of business, there can be no assurance that actual deviations from the expected loss development factors will not exceed the deviations assumed, perhaps materially.

Other Casualty Classes of Business: For casualty business other than the classes discussed above, there is generally some potential for deviation in both the loss cost trend and loss development factor assumptions. However, the effect of such deviations is expected to be less material when compared to the effect on the classes cited above.

*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. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

AIG continues to receive claims asserting injuries and damages from toxic waste, hazardous substances, and other environmental pollutants and alleged claims to cover the cleanup costs of hazardous waste dump sites, referred to collectively as environmental claims, and indemnity claims asserting injuries from asbestos.

The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution-related damage and an absolute asbestos exclusion was also implemented. The current environmental policies that AIG underwrites on a claims-made basis have been excluded from the analysis herein.

The majority of AIG's exposures for asbestos and environmental claims are excess casualty coverages, not primary coverages. Thus, the litigation costs are treated in the same manner as indemnity amounts. That is, litigation expenses are included within the limits of the liability AIG incurs. Individual significant claim liabilities, where future litigation costs are reasonably determinable, are established on a case-by-case basis.

Estimation of asbestos and environmental claims loss reserves is a subjective process and reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors. The methods used to determine asbestos and environmental loss estimates and to establish the resulting reserves are continually reviewed and updated by management.

Significant factors which affect the trends that influence the asbestos and environmental claims estimation process are the court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving, and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties from liability.

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Due to this uncertainty, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims. Such future development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage and liability issues. If the asbestos and environmental reserves develop deficiently, such deficiency could have an adverse effect on AIG's future results of operations for an individual reporting period.

With respect to known asbestos and environmental claims, AIG established over two decades ago specialized toxic tort and environmental claims units, which investigate and adjust all such asbestos and environmental claims. These units evaluate these asbestos and environmental claims utilizing a claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, AIG generally evaluates exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques have to be supplemented by subjective considerations, including management judgment. Each claim is reviewed at least semi-annually utilizing the aforementioned approach and adjusted as necessary to reflect the current information.

In both the specialized and dedicated asbestos and environmental claims units, AIG actively manages and pursues early resolution with respect to these claims in an attempt to mitigate its exposure to the unpredictable development of these claims. AIG attempts to mitigate its known long-tail environmental exposures by utilizing a combination of proactive claim-resolution techniques, including policy buybacks, complete environmental releases, compromise settlements, and, when appropriate, litigation.

With respect to asbestos claims handling, AIG's specialized claims staff operates to mitigate losses through proactive handling, supervision and resolution of asbestos cases. Thus, while AIG has resolved all claims with respect to miners and major manufacturers (Tier One), its claims staff continues to operate under the same proactive philosophy to resolve claims involving accounts with products containing asbestos (Tier Two), products containing small amounts of asbestos, companies in the distribution process, and parties with remote, ill-defined involvement in asbestos (Tiers Three and Four). Through its commitment to appropriate staffing, training, and management oversight of asbestos cases, AIG seeks to mitigate its exposure to these claims.

To determine the appropriate loss reserve as of December 31, 2009 for its asbestos and environmental exposures, AIG performed a series of top-down and ground-up reserve analyses. In order to ensure it had the most comprehensive analysis possible, AIG engaged a third-party actuary to assist in a review of these exposures, including ground-up estimates for asbestos reserves consistent with the 2005 through 2008 reviews as well as a top-down report year projection for environmental reserves. Ground-up analyses take into account policyholder-specific and claim-specific information that has been gathered over many years from a variety of sources. Ground-up studies can thus more accurately assess the exposure to AIG's layers of coverage for each policyholder, and hence for all policyholders in the aggregate, provided a sufficient sample of the policyholders can be modeled in this manner.

In order to ensure its ground-up analysis was comprehensive, AIG staff produced the information required at policy and claim level detail for nearly 800 asbestos defendants. This represented over 95 percent of all accounts for which AIG had received any claim notice of any amount pertaining to asbestos exposure. AIG did not set any minimum thresholds, such as amount of case reserve outstanding, or paid losses to date, that would have served to reduce the sample size and hence the comprehensiveness of the ground-up analysis. The results of the ground-up analysis for each significant account were examined by AIG's claims staff for reasonableness, for consistency with policy coverage terms, and any claim settlement terms applicable. Adjustments were incorporated accordingly. The results from the universe of modeled accounts, which as noted above reflects the vast majority of AIG's known exposures, were then utilized to estimate the ultimate losses from accounts or exposures that could not be modeled and to determine an appropriate provision for unreported claims.

AIG conducted a comprehensive analysis of reinsurance recoverability to establish the appropriate asbestos and environmental reserve net of reinsurance. AIG determined the amount of reinsurance that would be ceded to insolvent reinsurers or to commuted reinsurance contracts for both reported claims and for IBNR. These amounts



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were then deducted from the indicated amount of reinsurance recoverable. The year-end 2009 analysis reflected an update to the comprehensive analysis of reinsurance recoverability that was first completed in 2005 and updated each subsequent year. All asbestos accounts for which there was a significant amount of expected unreported losses based on the 2009 review were analyzed to determine the appropriate reserve net of reinsurance.

AIG also completed a top-down report year projection as well as a market share projection of its indicated asbestos and environmental loss reserves. These projections consist of a series of tests performed separately for asbestos and for environmental exposures.

For asbestos, these tests project the losses expected to be reported over the next 17 years, i.e., from 2010 through 2026, based on the actual losses reported through 2009 and the expected future loss emergence for these claims. Three scenarios were tested, with a series of assumptions ranging from more optimistic to more conservative.

For environmental claims, an analogous series of frequency/severity tests are produced. Environmental claims from future report years (i.e., IBNR) are projected out seven years, i.e., through the year 2016.

At year-end 2009, AIG considered a number of factors and recent experience in addition to the results of the respective top-down and ground-up analyses performed for asbestos and environmental reserves. AIG considered the significant uncertainty that remains as to AIG's ultimate liability relating to asbestos and environmental claims. This uncertainty is due to several factors including:

The long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;

The increase in the volume of claims by currently unimpaired plaintiffs;

Claims filed under the non-aggregate premises or operations section of general liability policies;

The number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;

Diverging legal interpretations; and

With respect to environmental claims, the difficulty in estimating the allocation of remediation cost among various parties.

After carefully considering the results of the ground-up analysis, which AIG updates on an annual basis, as well as all of the above factors, including the recent report year experience, AIG increased its gross asbestos reserves by \$300 million and increased its net asbestos reserves by \$75 million. Additionally, during 2009 a moderate amount of adverse incurred loss development pertaining to asbestos was reflected, which was primarily attributed to several large accounts.

Upon completion of the environmental top-down report year analysis performed in the fourth quarter of 2009, a minor adjustment to net reserves was recognized.

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The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined:

As of or for the Years Ended December 31, (in millions)	2009		2008		2007	
	Gross	Net	Gross	Net	Gross	Net
<b>Asbestos:</b>						
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 3,443	\$ 1,200	\$ 3,864	\$ 1,454	\$ 4,523	\$ 1,889
Dispositions <sup>(a)</sup>	(84)	(21)	-	-	-	-
Losses and loss expenses incurred <sup>(b)</sup>	482	151	273	53	96	5
Losses and loss expenses paid <sup>(b)</sup>	(605)	(179)	(694)	(307)	(755)	(440)
Liability for unpaid claims and claims adjustment expense at end of year	\$ 3,236	\$ 1,151	\$ 3,443	\$ 1,200	\$ 3,864	\$ 1,454
<b>Environmental:</b>						
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 417	\$ 194	\$ 515	\$ 237	\$ 629	\$ 290
Dispositions <sup>(a)</sup>	(37)	(7)	-	-	-	-
Losses and loss expenses incurred <sup>(b)</sup>	2	4	(44)	(2)	10	13
Losses and loss expenses paid <sup>(b)</sup>	(44)	(32)	(54)	(41)	(124)	(66)
Liability for unpaid claims and claims adjustment expense at end of year	\$ 338	\$ 159	\$ 417	\$ 194	\$ 515	\$ 237
<b>Combined:</b>						
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 3,860	\$ 1,394	\$ 4,379	\$ 1,691	\$ 5,152	\$ 2,179
Dispositions <sup>(a)</sup>	(121)	(28)	-	-	-	-
Losses and loss expenses incurred <sup>(b)</sup>	484	155	229	51	106	18
Losses and loss expenses paid <sup>(b)</sup>	(649)	(211)	(748)	(348)	(879)	(506)
Liability for unpaid claims and claims adjustment expense at end of year	\$ 3,574	\$ 1,310	\$ 3,860	\$ 1,394	\$ 4,379	\$ 1,691

(a) Includes reserves for Transatlantic, which was deconsolidated during the second quarter of 2009 and 21st Century which was sold in the third quarter of 2009.

(b) All amounts pertain to policies underwritten in prior years, primarily to policies issued in 1984 and prior years.

The current environmental policies that AIG underwrites on a claims-made basis have been excluded from the table above.

The following table presents the estimate of the gross and net IBNR included in the Liability for unpaid claims and claims adjustment expense, relating to asbestos and environmental claims separately and combined:

2009                      2008                      2007

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**At December 31,**  
**(in millions)**

	<b>Gross</b>		<b>Net</b>		<b>Gross</b>		<b>Net</b>		<b>Gross</b>		<b>Net</b>	
Asbestos	\$	2,072	\$	863	\$	2,301	\$	939	\$	2,701	\$	1,145
Environmental		161		71		249		99		325		131
Combined	\$	2,233	\$	934	\$	2,550	\$	1,038	\$	3,026	\$	1,276

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The following table presents a summary of asbestos and environmental claims count activity:

As of or for the Years Ended	2009			2008			2007		
December 31,	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	5,780	6,674	12,454	6,563	7,652	14,215	6,878	9,442	16,320
Claims during year:									
Opened	615	983	1,598						