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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

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110

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/11 AND ENDING 12/31/11
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: AIG Financial Securities Corp.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

50 Danbury Road
(No. and Street)

Wilton CT 06897-4444
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Stephen J. Hawriluk 203-221-4820
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP
(Name - if individual, state last, first, middle name)

300 Madison Avenue New York New York 10017
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Stephen J. Hawriluk, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of AIG Financial Securities Corp., as of December 31,, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

N/A


Signature

Chief Financial Officer
Title


Notary Public

SUSAN PORRITT-ATKINSON
NOTARY PUBLIC OF CONNECTICUT
My Commission Expires 5/31/2015

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

AIG Financial Securities Corp.
Statement of Financial Condition
December 31, 2011



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AIG Financial Securities Corp.
Statement of Financial Condition
December 31, 2011

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Report of Independent Auditors

To the Stockholder of
AIG Financial Securities Corp.

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of AIG Financial Securities Corp. (the "Company") at December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit of the financial statement provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 27, 2012

AIG Financial Securities Corp.
Statement of Financial Condition
December 31, 2011

(dollars in thousands, except share data)

Assets

Cash	\$	206
Securities owned, at fair value		100,441
Prepaid expenses		50
Total assets	\$	<u>100,697</u>

Liabilities and Stockholder's Equity

Liabilities

Accrued liabilities	\$	60
Unrealized loss on derivative		15,385
Due to affiliate		782
Current taxes payable to an affiliate		1,395
Total liabilities		<u>17,622</u>

Stockholder's equity

Common stock, \$.01 par value, 10,000 shares authorized, issued and outstanding		-
Additional paid-in capital		50
Retained earnings		83,025
Total stockholder's equity		<u>83,075</u>
Total liabilities and stockholder's equity	\$	<u>100,697</u>

The accompanying notes are an integral part of this financial statement.

AIG Financial Securities Corp.
Notes to Statement of Financial Condition
December 31, 2011

(dollars in thousands)

1. Organization of the Company

AIG Financial Securities Corp. (the "Company") is a wholly owned subsidiary of AIG Financial Products Corp. ("AIGFP" or the "Parent"), which in turn is a wholly owned subsidiary of American International Group, Inc. ("AIG"). AIG has issued an irrevocable guarantee under which it guarantees to each holder of a monetary obligation or liability of the Company the prompt payment, when due, of all such obligations or liabilities. The Company is a registered broker-dealer under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority.

2. Summary of Significant Accounting Policies

The accompanying financial statement has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Cash

At December 31, 2011, the Company's cash is held at two New York Money Center banks.

Securities Transactions

The Company clears securities transactions executed for clients of the Company's affiliates. In the normal course of business, the Company is involved in the execution and settlement of securities transactions with counterparties who are primarily institutions and affiliates. These activities may expose the Company to risk in the event that the counterparty is unable to fulfill its contracted obligations and the Company has to purchase or sell the securities underlying the contract at a loss. As of December 31, 2011, the Company had no unsettled transactions with its counterparties. The Company has the right to pursue collection or performance from the counterparties who do not perform under contractual obligations. The Company monitors the credit standing of all counterparties with which it conducts business.

The Company is also subject to operational, technological and settlement risks. These risks include the risk of potential financial loss attributable to operational factors such as untimely or inaccurate trade execution, clearance or settlement. The Company is also subject to risk of loss attributable to technological limitations or computer failures that may constrain the Company's ability to gather, process and communicate information efficiently, securely and without interruption.

Securities Owned

Securities owned are recorded on a trade-date basis and are carried at fair value. At December 31, 2011, Securities owned consists of a high investment-grade, medium-term discount United States of America ("U.S.") government agency debt obligation having a face value of \$110,000 with approximately 5 years to maturity.

Derivatives

Derivative instruments are primarily used for economic hedges of financial instruments and are carried at fair value.

AIG Financial Securities Corp.
Notes to Statement of Financial Condition
December 31, 2011

(dollars in thousands)

Derivatives used for economic hedging purposes includes a total return and interest rate swap contract. Unrealized gains or losses on this derivative contract is recognized currently in the Statement of Income as Principal transactions revenues. The Company does not apply hedge accounting as defined in Financial Accounting Standards Board ("FASB") Accounting Standard Codification 815, Derivatives and Hedging ("ASC 815"), as amended, as all financial instruments are recorded at fair value with changes in fair values reflected in earnings. Therefore, certain of the disclosures required under FASB ASC 815 are generally not applicable with respect to these financial instruments.

Unrealized gains and losses on derivatives are recognized gross in the Statement of Financial Condition.

Recent Accounting Standards

Fair Value Measurement

In January 2010, the FASB issued ASU No. 2010-06, "Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements." ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements. Certain disclosure requirements of ASU No. 2010-06 were effective for the Company in 2010 while other disclosures about purchases, sales, issuances, and settlements within the rollforward of Level 3 activity became effective for financial statements issued for reporting periods beginning after December 15, 2010. These additional disclosures concerning fair value measurements under ASU 2010-06 were adopted by the Company in 2011 and did not materially affect the Company's financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Disclosures About Offsetting Assets and Liabilities

In September 2011, the FASB issued ASU 2011- "Disclosures about Offsetting Assets and Liabilities", an accounting standard which affects all entities that have financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement. This standard is effective for annual fiscal years beginning on or after January 1, 2013. The adoption of this standard is not expected to have a material impact on the firm's financial position, results of operations or cash flows.

3. Fair Value

Fair Value Measurements

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value. Market inputs such as quoted prices, credit spreads and relative yield curves are also used to estimate the fair value of an asset or liability.

AIG Financial Securities Corp.
Notes to Statement of Financial Condition
December 31, 2011

(dollars in thousands)

Securities owned, at fair value is carried at estimated fair value based on the use of valuation models that utilize, among other things, current interest rates and yield curves. The Company attempts to secure reliable and independent current market data, such as published exchange rates, external subscription services' prices such as Bloomberg or Reuters or third-party broker quotes for use in its models. When such prices are not available, the Company uses an internal methodology which includes interpolation and extrapolation from observable and verifiable prices nearest to the dates of the transactions. These valuations represent an assessment of the present values of expected future cash flows of these transactions and reflect market and credit risk. The discounted cash flows are evaluated with reference to current market conditions, maturities and other relevant factors.

Unrealized loss on derivative is carried at estimated fair value based on the use of valuation models that utilize, among other things, current interest rates and yield curves. The Company attempts to secure reliable and independent current market data, such as published exchange rates, external subscription services' prices such as Bloomberg or Reuters or third-party broker quotes for use in its models. When such prices are not available, the Company uses an internal methodology which includes interpolation and extrapolation from observable and verifiable prices nearest to the dates of the transactions. These valuations represent an assessment of the present values of expected future cash flows of these transactions and reflect market and credit risk. The discounted cash flows are evaluated with reference to current market conditions, maturities and other relevant factors.

Because of the limited liquidity of some of these instruments, the recorded values of the Securities owned, at fair value and Unrealized loss on derivative may be different from the values that might be realized if the Company was to sell or close out the transactions prior to maturity. Such differences are not significant to the Company's financial condition or liquidity.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities which the Company has the ability to access.
- Level 2 Inputs are inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 Are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

AIG Financial Securities Corp.
Notes to Statement of Financial Condition
December 31, 2011

(dollars in thousands)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Assets				
Securities owned				
U.S. government agency debt obligation	\$ -	\$ 100,441	\$ -	\$ 100,441
Liabilities				
Financial instruments				
Unrealized loss on derivative	\$ -	\$ 15,385	\$ -	\$ 15,385

Fair Value Option

The carrying values of cash, accrued liabilities and due to affiliates included in the Company's statement of financial condition approximate fair value as they are short-term, have floating interest terms and limited credit exposure. No fair value option election under the provisions of FASB ASC 825 was made for these accounts.

4. Financial Instruments With Off-Balance-Sheet Risk

The credit risk for derivatives is limited to the unrealized fair valuation gains recorded in the statement of financial condition. Market risk, if any, is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

The Company's derivative transaction has a maturity of approximately five years at December 31, 2011.

Open derivative contracts, which are linked to assets or liabilities that are sold or otherwise disposed of, are terminated at the time of disposition.

At December 31, 2011, the Company had an outstanding interest rate swap agreement with a notional principal amount of \$110,000. The swap is recorded at fair value.

5. Due to Affiliates, net, and Related-Party Transactions

A majority of the Company's transactions, including the interest rate swap agreement are with affiliated entities.

At December 31, 2011, Due to affiliate consists primarily of amounts due AIGFP attributable to expenses paid on behalf of the Company by AIGFP and reimbursable by the Company.

Administrative services are provided to the Company by AIGFP. Administrative services include personnel, office space, data processing, communications, computer and any other expenses incurred which are necessary to conduct the Company's business as a broker dealer.

AIG Financial Securities Corp.
Notes to Statement of Financial Condition
December 31, 2011

(dollars in thousands)

During 2011, administrative expenses were allocated to the Company pursuant to an Administrative Services and Expense Sharing Agreement (the "Agreement") with AIGFP. The terms of the Agreement provides for an allocation of expenses by AIGFP to the Company that equates to the proportional use of the allocated cost by the Company.

In September 2008, liquidity issues resulted in AIG seeking and receiving governmental support through a credit facility from the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and funding from the United States Department of the Treasury (Department of the Treasury) through the Troubled Asset Relief Program (TARP).

On January 14, 2011, AIG was recapitalized (the Recapitalization) and the FRBNY Credit Facility was repaid and terminated through a series of transactions that resulted in the Department of the Treasury becoming AIG's majority shareholder with ownership of approximately 92% of AIG's outstanding common stock at that time. AIG understands that, subject to market conditions, the Department of the Treasury intends to dispose of its ownership interest over time, and AIG has granted certain registration rights to the Department of the Treasury to facilitate such sales.

On May 27, 2011, AIG and the Department of the Treasury, as the selling shareholder, completed a registered public offering of AIG Common Stock. AIG issued and sold 100 million shares of AIG Common Stock for aggregate net proceeds of approximately \$2.9 billion and the Department of the Treasury sold 200 million shares of AIG Common Stock. AIG did not receive any of the proceeds from the sale of the shares of AIG Common Stock by the Department of the Treasury. As a result of the sale of AIG Common Stock in this offering, the Series G Cumulative Mandatory Convertible Preferred Stock, par value \$5.00 per share (the Series G Preferred Stock) was cancelled and the ownership of the AIG Common Stock by the Department of the Treasury was reduced from approximately 92% to approximately 77% outstanding after the completion of the offering. It is expected that over time the Department of the Treasury will sell its shares of AIG common stock on the open market.

AIGFP unwound a considerable amount of its businesses and portfolios through the second quarter of 2011, and certain activities are expected to continue through a portion of 2012. As a consequence, it is expected that the above process will reduce the scope of the Company's operations in the foreseeable future. The ultimate impact on the Company, however, cannot be precisely determined at this time.

6. Income Taxes

The operations of the Company are included in the consolidated U.S. federal income tax return of AIG and in the combined Connecticut State tax return of AIG subsidiaries that operate in Connecticut. Included in current taxes payable to affiliate in the statement of financial condition are federal and state tax payables of \$1,133, and \$262, respectively.

The Company has not recognized any uncertain tax positions pursuant to FASB ASC 740 "Income Taxes". The statute of limitations for all tax years prior to 2000 has now expired for AIG's consolidated federal income tax return.

The Company is treated as a dealer under Internal Revenue Code ("IRC") Section 475. Accordingly, the Company is required to follow a mark-to-market methodology for valuing their securities inventories for tax purposes.

AIG Financial Securities Corp.
Notes to Statement of Financial Condition
December 31, 2011

(dollars in thousands)

No deferred taxes were identified as of the balance sheet date.

The Company has executed a tax sharing agreement with AIG that provides that the Company's share of the consolidated tax liability will be determined generally on a separate company basis. The agreement provides that tax benefits realized in the consolidated group attributable to the Company will be allocated to the Company irrespective of whether such benefits may have been realized currently by the Company on a separate return basis.

7. Commitments and Contingencies

The Company operates subject to cancelable agreements with affiliated entities.

8. Net Capital Requirements

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule 15c3-1 of the Securities and Exchange Commission, which requires that the Company maintain net capital, as defined, of one-fifteenth of aggregate indebtedness, as defined, or \$250, whichever is greater. At December 31, 2011, the Company had net capital of \$79,007, which exceeded its requirement of \$1,175 by \$77,832, and its ratio of aggregate indebtedness to net capital was 0.22 to 1.

The Company is subject to Rule 15c3-3 under the Securities Exchange Act of 1934. During the year ended December 31, 2011, the Company was not required to and did not hold any customer money or securities.

9. Subsequent Events

No events have occurred subsequent to the balance sheet date that would require material adjustment to or disclosure in the financial statements through the period February 27, 2012.



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