

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

PLAINTIFF'S
EXHIBIT
360

Form 10-Q

(Mark One)



QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2004
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)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2592361
(I.R.S. Employer
Identification No.)

70 Pine Street, New York, New York
(Address of principal executive offices)

10270
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 2004:
2,604,570,819.

CONSOLIDATED BALANCE SHEET*(in millions) (unaudited)*

	September 30, 2004	December 31, 2003
Assets:		
Investments, financial services assets and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2004 – \$317,392; 2003 – \$288,160)	\$ 330,735	\$ 300,935
Bonds held to maturity, at amortized cost (market value: 2004 – \$15,790; 2003 – \$8,173)	15,415	8,037
Bond trading securities, at market value (cost: 2004 – \$2,379; 2003 – \$252)	2,399	282
Equity securities:		
Common stocks, at market value (cost: 2004 – \$13,348; 2003 – \$6,884)	14,235	7,678
Preferred stocks, at market value (cost: 2004 – \$1,879; 2003 – \$1,743)	1,915	1,906
Mortgage loans on real estate, net of allowance (2004 – \$106; 2003 – \$101)	12,833	12,295
Policy loans	6,784	6,658
Collateral and guaranteed loans, net of allowance (2004 – \$17; 2003 – \$15)	2,293	2,296
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2004 – \$6,104; 2003 – \$5,458)	32,180	30,343
Securities available for sale, at market value (cost: 2004 – \$19,622; 2003 – \$15,732)	19,630	15,714
Trading securities, at market value	3,551	3,300
Spot commodities, at market value	133	250
Unrealized gain on interest rate and currency swaps, options and forward transactions	20,793	21,599
Trading assets	2,360	2,548
Securities purchased under agreements to resell, at contract value	38,354	28,170
Finance receivables, net of allowance (2004 – \$462; 2003 – \$453)	21,531	17,609
Securities lending collateral, at cost (approximates market value)	53,803	30,195
Other invested assets	21,524	16,787
Short-term investments, at cost (approximates market value)	14,672	8,914
Cash	2,072	922
Total investments, financial services assets and cash	617,212	516,438
Investment income due and accrued	5,886	4,959
Premiums and insurance balances receivable, net of allowance (2004 – \$278; 2003 – \$235)	16,934	14,166
Reinsurance assets	26,730	27,962
Deferred policy acquisition costs	28,656	26,398
Investments in partially owned companies	1,359	1,428
Real estate and other fixed assets, net of accumulated depreciation (2004 – \$4,599; 2003 – \$4,247)	5,999	6,006
Separate and variable accounts	52,664	60,536
Goodwill	8,407	7,633
Other assets	12,573	12,820
Total assets	\$ 776,420	\$ 678,346

See Accompanying Notes to Financial Statements.

CONSOLIDATED BALANCE SHEET *(continued)**(in millions, except share amounts) (unaudited)*

	September 30, 2004	December 31, 2003
Liabilities:		
Reserve for losses and loss expenses	\$ 62,150	\$ 56,118
Reserve for unearned premiums	23,275	20,762
Future policy benefits for life and accident and health insurance contracts	98,105	92,970
Policyholders' contract deposits	208,497	171,989
Other policyholders' funds	9,704	9,100
Reserve for commissions, expenses and taxes	4,584	4,487
Insurance balances payable	3,422	2,592
Funds held by companies under reinsurance treaties	5,522	4,664
Income taxes payable:		
Current	2,709	1,977
Deferred	6,564	5,778
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	18,461	15,337
Securities sold under agreements to repurchase, at contract value	19,473	14,810
Trading liabilities	2,651	6,153
Securities and spot commodities sold but not yet purchased, at market value	4,895	5,458
Unrealized loss on interest rate and currency swaps, options and forward transactions	18,724	15,268
Trust deposits and deposits due to banks and other depositors	3,610	3,491
Commercial paper	6,059	4,715
Notes, bonds, loans and mortgages payable	56,925	50,138
Commercial paper	3,165	1,223
Notes, bonds, loans and mortgages payable	5,599	5,865
Preferred shareholders' equity in subsidiary companies subject to mandatory redemption	1,488	1,682
Separate and variable accounts	52,664	60,536
Minority interest	4,159	3,311
Securities lending payable	53,803	30,195
Other liabilities	21,116	18,282
Total liabilities	697,324	606,901
Preferred shareholders' equity in subsidiary companies	193	192
Shareholders' equity:		
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued 2004 – 2,751,327,476; 2003 – 2,751,327,476	6,878	6,878
Additional paid-in capital	575	568
Retained earnings	68,456	60,960
Accumulated other comprehensive income	4,700	4,244
Treasury stock, at cost; 2004 – 146,756,657; 2003 – 142,880,430 shares of common stock	(1,706)	(1,397)
Total shareholders' equity	78,903	71,253
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	\$ 776,420	\$ 678,346

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Premiums and other considerations	\$ 50,150	\$ 40,316	\$ 17,690	\$ 13,869
Net investment income	14,084	12,203	4,708	4,088
Realized capital gains (losses)	(72)	(1,348)	(12)	(359)
Other revenues	8,695	7,953	3,025	2,708
Total revenues	72,857	59,124	25,411	20,306
Benefits and expenses:				
Incurred policy losses and benefits	42,709	33,989	15,434	11,523
Insurance acquisition and other operating expenses	17,510	15,277	6,019	5,279
Total benefits and expenses	60,219	49,266	21,453	16,802
Income before income taxes, minority interest and cumulative effect of an accounting change	12,638	9,858	3,958	3,504
Income taxes:				
Current	3,207	2,384	607	873
Deferred	830	621	673	196
	4,037	3,005	1,280	1,069
Income before minority interest and cumulative effect of an accounting change	8,601	6,853	2,678	2,435
Minority interest	(390)	(286)	(166)	(98)
Income before cumulative effect of an accounting change	8,211	6,567	2,512	2,337
Cumulative effect of an accounting change, net of tax	(181)	—	—	—
Net income	\$ 8,030	\$ 6,567	\$ 2,512	\$ 2,337
Earnings per common share:				
Basic				
Income before cumulative effect of an accounting change	\$ 3.15	\$ 2.52	\$ 0.97	\$ 0.90
Cumulative effect of an accounting change, net of tax	(0.07)	—	—	—
Net income	\$ 3.08	\$ 2.52	\$ 0.97	\$ 0.90
Diluted				
Income before cumulative effect of an accounting change	\$ 3.12	\$ 2.50	\$ 0.95	\$ 0.89
Cumulative effect of an accounting change, net of tax	(0.07)	—	—	—
Net income	\$ 3.05	\$ 2.50	\$ 0.95	\$ 0.89
Cash dividends per common share	\$ 0.205	\$ 0.159	\$ 0.075	\$ 0.065
Average shares outstanding:				
Basic	2,608	2,610	2,606	2,610
Diluted	2,630	2,628	2,628	2,628

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions) (unaudited)

Nine Months Ended September 30,	2004	2003
Summary:		
Net cash provided by operating activities	\$ 20,432	\$ 20,557
Net cash used in investing activities	(54,578)	(40,086)
Net cash provided by financing activities	35,295	19,289
Change in cumulative translation adjustments	1	24
Change in cash	1,150	(216)
Cash at beginning of period	922	1,165
Cash at end of period	\$ 2,072	\$ 949
Cash flows from operating activities:		
Net income	\$ 8,030	\$ 6,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	16,288	16,843
Premiums and insurance balances receivable and payable – net	(1,939)	(1,795)
Reinsurance assets	1,232	(2,962)
Deferred policy acquisition costs	(2,366)	(2,128)
Investment income due and accrued	(880)	(546)
Funds held under reinsurance treaties	858	792
Other policyholders' funds	604	380
Current and deferred income taxes – net	1,562	1,513
Reserve for commissions, expenses and taxes	96	132
Other assets and liabilities – net	1,417	(472)
Trading assets and liabilities – net	(3,314)	959
Trading securities, at market value	(251)	877
Spot commodities, at market value	117	165
Net unrealized (gain) loss on interest rate and currency swaps, options and forward transactions	4,262	(147)
Securities purchased under agreements to resell	(10,184)	2,310
Securities sold under agreements to repurchase	4,663	2,050
Securities and spot commodities sold but not yet purchased, at market value	(563)	(6,524)
Realized capital (gains) losses	72	1,348
Equity in income of partially owned companies and other invested assets	(935)	(389)
Amortization of premium and discount on securities	231	(59)
Depreciation expenses, principally flight equipment	1,514	1,386
Provision for finance receivable losses	282	312
Other – net	(364)	(55)
Total adjustments	12,402	13,990
Net cash provided by operating activities	\$ 20,432	\$ 20,557

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*
(in millions) (unaudited)

Nine Months Ended September 30,	2004	2003
Cash flows from investing activities:		
Cost of bonds, at market sold	\$ 92,777	\$ 73,483
Cost of bonds, at market matured or redeemed	10,776	10,668
Cost of equity securities sold	10,621	6,277
Realized capital gains (losses)	(72)	(1,348)
Purchases of fixed maturities	(140,608)	(112,221)
Purchases of equity securities	(13,490)	(6,542)
Mortgage, policy and collateral loans granted	(2,257)	(1,835)
Repayments of mortgage, policy and collateral loans	1,655	1,282
Sales of securities available for sale	2,032	4,410
Maturities of securities available for sale	3,603	4,143
Purchases of securities available for sale	(9,444)	(8,037)
Sales of flight equipment	1,155	808
Purchases of flight equipment	(3,932)	(4,313)
Net additions to real estate and other fixed assets	(531)	(776)
Sales or distributions of other invested assets	5,434	5,055
Acquisitions, net of cash acquired	—	(2,091)
Investments in other invested assets	(8,551)	(7,737)
Change in short-term investments	454	(319)
Investments in partially owned companies	3	219
Finance receivable originations and purchases	(18,026)	(9,466)
Finance receivable principal payments received	13,823	8,254
Net cash used in investing activities	\$ (54,578)	\$ (40,086)
Cash flows from financing activities:		
Receipts from policyholders' contract deposits	\$ 40,393	\$ 27,399
Withdrawals from policyholders' contract deposits	(16,965)	(12,364)
Change in trust deposits and deposits due to banks and other depositors	136	480
Change in commercial paper	3,286	(1,488)
Proceeds from notes, bonds, loans and mortgages payable	22,471	17,827
Repayments on notes, bonds, loans and mortgages payable	(15,849)	(10,891)
Liquidation of zero coupon notes payable	(189)	—
Proceeds from guaranteed investment agreements	8,006	3,957
Maturities of guaranteed investment agreements	(4,882)	(4,714)
Redemption of subsidiary company preferred stock	(200)	(371)
Proceeds from common stock issued	130	44
Cash dividends to shareholders	(535)	(415)
Acquisition of treasury stock	(508)	(176)
Other – net	1	1
Net cash provided by financing activities	\$ 35,295	\$ 19,289
Supplementary information:		
Taxes paid	\$ 2,011	\$ 1,861
Interest paid	\$ 3,119	\$ 2,792

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions) (unaudited)

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2004	2003	2004	2003
Comprehensive income:				
Net income	\$ 8,030	\$ 6,567	\$ 2,512	\$ 2,337
Other comprehensive income (loss):				
Unrealized appreciation (depreciation) of investments – net of reclassification adjustments	274	4,340	5,135	(3,249)
Deferred income tax (expense) benefit on above changes	(55)	(1,529)	(1,850)	1,159
Foreign currency translation adjustments *	155	(38)	198	(494)
Applicable income tax (expense) benefit on above changes	(40)	54	(62)	133
Net derivative gains (losses) arising from cash flow hedging activities	240	383	(451)	261
Deferred income tax (expense) benefit on above changes	(55)	(122)	144	(94)
Retirement plan liabilities adjustment, net of tax	(63)	(68)	(54)	(2)
Other comprehensive income (loss)	456	3,020	3,060	(2,286)
Comprehensive income	\$ 8,486	\$ 9,587	\$ 5,572	\$ 51

* Includes insignificant derivative gains and losses arising from hedges of net investments in foreign operations. See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Financial Statement Presentation

These statements are unaudited. In the opinion of management, all adjustments consisting only of normal recurring accruals have been made for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated. Certain accounts have been reclassified in the 2003 financial statements to conform to their 2004 presentation. For further information, refer to the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2003.

2. Segment Information

Beginning with the first quarter of 2004, AIG reported Retirement Services results in the same segment as Life Insurance, reflecting the convergence of protective and retirement products and AIG's current management of these operations. To conform to 2004 presentation, 2003 accounts have been restated.

The following table summarizes the operations by major operating segment for the nine months and quarter ended September 30, 2004 and 2003:

Operating Segments (in millions)	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
General Insurance ^(a)	\$ 31,686	\$ 25,258	\$ 11,153	\$ 8,958
Life Insurance & Retirement Services ^(b)	32,637	26,273	11,213	8,800
Financial Services ^(c)	5,768	5,495	2,038	1,885
Asset Management ^(d)	2,927	2,458	987	823
Other	(161)	(360)	20	(160)
Consolidated	\$ 72,857	\$ 59,124	\$ 25,411	\$ 20,306
Operating income^{(e)/(f)}:				
General Insurance	\$ 4,004	\$ 3,596	\$ 855	\$ 1,240
Life Insurance & Retirement Services	6,302	4,659	2,167	1,705
Financial Services	1,788	1,762	656	609
Asset Management	869	578	353	208
Other ^(g)	(325)	(737)	(73)	(258)
Consolidated	\$ 12,638	\$ 9,858	\$ 3,958	\$ 3,504

(a) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).

(b) Represents the sum of GAAP Life Insurance & Retirement Services premiums, net investment income and realized capital gains (losses).

(c) Represents interest, lease and finance charges.

(d) Represents management and advisory fees, and net investment income with respect to guaranteed investment contracts.

(e) Represents income before income taxes, minority interest and cumulative effect of an accounting change.

(f) Catastrophe losses for the first nine months and third quarter of 2004 were \$814 million compared to \$73 million for the same periods of 2003.

(g) Represents other income (deductions) – net and other realized capital gains (losses).

The following table summarizes AIG's General Insurance operations by major operating unit for the nine months and quarter ended September 30, 2004 and 2003:

General Insurance	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003

<i>(in millions)</i>	2004	2003	2004	2003
Revenues:				
Domestic Brokerage Group	\$ 17,947	\$ 13,916	\$ 6,539	\$ 4,905
Transatlantic	2,964	2,528	1,021	939
Personal Lines	3,312	2,761	1,128	959
Mortgage Guaranty	485	489	165	155
Foreign General	6,955	5,597	2,293	1,996
Reclassifications and Eliminations	23	(33)	7	4
Total General Insurance	\$ 31,686	\$ 25,258	\$ 11,153	\$ 8,958
Operating Income (loss):				
Domestic Brokerage Group *	\$ 2,156	\$ 1,808	\$ 519	\$ 547
Transatlantic *	188	284	(43)	107
Personal Lines *	253	190	72	75
Mortgage Guaranty	294	332	95	100
Foreign General *	1,090	1,015	205	407
Reclassifications and Eliminations	23	(33)	7	4
Total General Insurance	\$ 4,004	\$ 3,596	\$ 855	\$ 1,240

* Catastrophe losses for the first nine months and third quarter of 2004 by segment were: Domestic Brokerage Group \$406 million, Personal Lines \$25 million, Transatlantic \$165 million and Foreign General \$140 million. Catastrophe losses for the first nine months and third quarter of 2003 by segment were: Domestic Brokerage Group \$48 million, Personal Lines \$5 million, Transatlantic \$4 million and Foreign General \$16 million.

The following table summarizes AIG's Life Insurance & Retirement Services operations by major operating unit for the nine months and quarter ended September 30, 2004 and 2003:

Life Insurance & Retirement Services <i>(in millions)</i>	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Foreign:				
American International Assurance and Nan Shan Life	\$ 11,446	\$ 9,458	\$ 4,044	\$ 3,141
ALICO, AIG Star Life and AIG Edison Life	9,145	5,985	3,038	1,996
Other	396	352	146	119
Domestic:				
AGLA and AG Life ^(a)	6,784	6,349	2,300	2,102
VALIC, AIG Annuity and AIG SunAmerica ^(b)	4,866	4,129	1,685	1,442
Total Life Insurance & Retirement Services	\$ 32,637	\$ 26,273	\$ 11,213	\$ 8,800

2. Segment Information *(continued)*

Life Insurance & Retirement Services <i>(in millions)</i>	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
Operating Income:				
Foreign:				
American International Assurance and Nan Shan Life	\$ 1,515	\$ 1,170	\$ 472	\$ 494
ALICO, AIG Star Life and AIG Edison Life	2,005	1,301	730	474
Other	65	72	21	25
Domestic:				
AGLA and AG Life ^(a)	1,196	1,117	396	362
VALIC, AIG Annuity and AIG SunAmerica ^(b)	1,521	999	548	350
Total Life Insurance & Retirement Services	\$ 6,302	\$ 4,659	\$ 2,167	\$ 1,705

(a) Includes the life operations of AIG Life Insurance Company and American International Life Assurance Company of New York.

(b) "AIG SunAmerica" represents the annuity operations of AIG SunAmerica Life Assurance Company, as well as those of First SunAmerica Life Insurance Company and SunAmerica Life Insurance Company.

The following table summarizes AIG's Financial Services operations by major operating unit for the nine months and quarter ended September 30, 2004 and 2003:

Financial Services <i>(in millions)</i>	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Aircraft Finance	\$ 2,404	\$ 2,272	\$ 842	\$ 785
Capital Markets *	1,161	1,242	426	434
Consumer Finance	2,178	1,957	762	664
Other	25	24	8	2
Total Financial Services	\$ 5,768	\$ 5,495	\$ 2,038	\$ 1,885
Operating income:				
Aircraft Finance	\$ 547	\$ 548	\$ 204	\$ 190
Capital Markets *	664	729	248	241
Consumer Finance	579	489	204	174
Other	(2)	(4)	-	4
Total Financial Services	\$ 1,788	\$ 1,762	\$ 656	\$ 609

* Represents AIG Financial Products Corp. and AIG Trading Group Inc.

The following table summarizes AIG's Asset Management revenues and operating income for the nine months and quarter ended September 30, 2004 and 2003:

Asset Management <i>(in millions)</i>	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003

Revenues:				
Guaranteed Investment Contracts	\$ 2,024	\$ 1,854	\$ 682	\$ 617
Institutional Asset Management ^(a)	718	456	243	156
Brokerage Services and Mutual Funds	185	148	62	50
Total Asset Management	\$ 2,927	\$ 2,458	\$ 987	\$ 823
Operating income:				
Guaranteed Investment Contracts	\$ 477	\$ 393	\$ 142	\$ 135
Institutional Asset Management ^{(a)(b)}	338	141	194	53
Brokerage Services and Mutual Funds	54	44	17	20
Total Asset Management	\$ 869	\$ 578	\$ 353	\$ 208

(a) Includes AIG Global Investment Group and certain smaller asset management operations.

(b) Includes the results of certain AIG managed private equity and real estate funds consolidated effective December 31, 2003 pursuant to FIN46R, "Consolidation of Variable Interest Entities". For the first nine months and third quarter of 2004, operating income includes \$147 million and \$116 million, respectively, of third-party limited partner earnings offset in Minority interest expense.

3. Earnings Per Share

Earnings per share of AIG are based on the weighted average number of common shares outstanding during the period.

Computation of Earnings Per Share:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
<i>(in millions, except per share amounts)</i>				
Numerator for basic earnings per share:				
Income before cumulative effect of an accounting change	\$ 8,211	\$ 6,567	\$ 2,512	\$ 2,337
Cumulative effect of an accounting change, net of tax	(181)	–	–	–
Net income applicable to common stock	\$ 8,030	\$ 6,567	\$ 2,512	\$ 2,337
Denominator for basic earnings per share:				
Average shares outstanding used in the computation of per share earnings:				
Common stock issued	2,752	2,752	2,752	2,752
Common stock in treasury	(144)	(142)	(146)	(142)
Average shares outstanding – basic	2,608	2,610	2,606	2,610

3. Earnings Per Share *(continued)*

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
<i>(in millions, except per share amounts)</i>				
Numerator for diluted earnings per share:				
Income before cumulative effect of an accounting change	\$ 8,211	\$ 6,567	\$ 2,512	\$ 2,337
Cumulative effect of an accounting change, net of tax	(181)	–	–	–
Net income applicable to common stock	\$ 8,030	\$ 6,567	\$ 2,512	\$ 2,337
Denominator for diluted earnings per share:				
Average shares outstanding	2,608	2,610	2,606	2,610
Incremental shares from potential common stock:				
Average number of shares arising from outstanding employee stock plans (treasury stock method)*	22	18	22	18
Average shares outstanding – diluted	2,630	2,628	2,628	2,628
Earnings per share:				
Basic:				
Income before cumulative effect of an accounting change	\$ 3.15	\$ 2.52	\$ 0.97	\$ 0.90
Cumulative effect of an accounting change, net of tax	(0.07)	–	–	–
Net income	\$ 3.08	\$ 2.52	\$ 0.97	\$ 0.90
Diluted:				
Income before cumulative effect of an accounting change	\$ 3.12	\$ 2.50	\$ 0.95	\$ 0.89
Cumulative effect of an accounting change, net of tax	(0.07)	–	–	–
Net income	\$ 3.05	\$ 2.50	\$ 0.95	\$ 0.89

* Certain shares related to employee stock plans were not included in the computation of diluted earnings per share where the exercise price of the options exceeded the average market price and would have been antidilutive. The number of shares excluded were 7.9 million and 24.9 million for the first nine months of 2004 and 2003, respectively.

Pursuant to Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment to FASB Statement No. 123" (FAS 148), AIG adopted the "Prospective Method" of accounting for stock-based employee compensation effective January 1, 2003. FAS 148 also requires that AIG disclose the impact of stock-based compensation expense that would have been recognized if the fair value based method had been applied to all the awards vesting in the current period.

The impact with respect to stock-based compensation expense that would have been recognized if the fair value based method had been applied to all the awards vesting in the first nine months of 2004 and the third quarter of 2004 was approximately \$0.01 per share and less than \$0.005 per share, respectively.

The quarterly dividend rate per common share, commencing with the dividend paid September 17, 2004 is \$0.075.

4. Starr International Company, Inc. Plan

Starr International Company, Inc. (SICO) provides a Deferred Compensation Profit Participation Plan (SICO Plan) to certain AIG employees. The SICO Plan came into being in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset consists of AIG common stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG. Participation in the SICO Plan by any person, and the amount of such participation, is at the sole discretion of SICO's Board of Directors, and none of the costs of the various benefits provided under such plan is paid by or charged to AIG. The SICO Plan provides that shares currently owned by SICO may be set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors may permit an early pay-out under certain circumstances. Prior to pay-out, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's voluntary termination of employment with AIG prior to normal retirement age. In addition, SICO's Board of Directors may elect to pay a participant cash in lieu of shares of AIG common stock. If the expenses of the SICO Plan had been reflected by AIG, the pre-tax amounts accrued would have been \$39 million for the first nine months of 2004 and \$96 million for the same period of 2003 and \$13 million and \$32 million for the third

quarter of 2004 and 2003, respectively.

5. Commitments and Contingent Liabilities

(a) In the normal course of business, various commitments and contingent liabilities are entered into by AIG and certain of its subsidiaries. In addition, AIG guarantees various obligations of certain subsidiaries.

(i) AIG and certain of its subsidiaries become parties to derivative financial instruments with market risk resulting from both dealer and end user activities and to reduce currency, interest rate, equity and commodity exposures. These instruments are carried at their estimated fair values in the consolidated balance sheet. The vast majority of AIG's derivative activity is transacted by AIG Financial Products Corp. and its subsidiaries (AIGFP) and AIG Trading Group Inc. and

5. Commitments and Contingent Liabilities *(continued)*

its subsidiaries (AIGTG). For further discussion on AIG's derivative activities, see also Note 21 of the Notes to Financial Statements in AIG's December 31, 2003 10-K.

(ii) Securities sold, but not yet purchased and spot commodities sold but not yet purchased represent obligations of Capital Markets operations to deliver specified securities and spot commodities at their contracted prices, and thereby record a liability to repurchase the securities and spot commodities in the market at prevailing prices.

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP and AIGTG arising from transactions entered into by AIGFP and AIGTG. Net revenues for the nine months ended September 30, 2004 and 2003 from Capital Markets operations were \$1.16 billion and \$1.24 billion, respectively. The Capital Markets operating and reporting unit was established by integrating the operations of AIGTG with AIGFP.

(iii) At September 30, 2004, International Lease Finance Corporation (ILFC) had committed to purchase 378 new and used aircraft deliverable from 2004 through 2010 at an estimated aggregate purchase price of \$22.5 billion and had options to purchase nine new aircraft at an estimated aggregate purchase price of \$650 million. ILFC will be required to find customers for any aircraft acquired, and it must arrange financing for portions of the purchase price of such equipment.

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

(b) Various federal and state regulatory agencies are reviewing certain transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries. See discussion under "Recent Developments" in Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

6. Employee Benefits

The following table presents the components of the net periodic benefit costs with respect to pensions and other benefits for the nine months and quarter ended September 30, 2004 and 2003:

	Pensions			Postretirement		
	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
<i>(In millions)</i>						
Nine Months Ended September 30, 2004						
Components of net period benefit cost:						
Service cost	\$ 45	\$ 69	\$ 114	\$ —	\$ 3	\$ 3
Interest cost	24	120	144	—	12	12
Expected return on assets	(15)	(129)	(144)	—	—	—
Amortization of prior service cost	(2)	3	1	—	(5)	(5)
Amortization of transitional liability	2	—	2	—	—	—
Recognized actuarial loss	15	42	57	—	2	2
Net period benefit cost	\$ 69	\$ 105	\$ 174	\$ —	\$ 12	\$ 12
Three Months Ended September 30, 2004						
Components of net period benefit cost:						
Service cost	\$ 15	\$ 23	\$ 38	\$ —	\$ 1	\$ 1
Interest cost	8	40	48	—	4	4
Expected return on assets	(5)	(43)	(48)	—	—	—
Amortization of prior service cost	(1)	1	—	—	(2)	(2)
Amortization of transitional liability	1	—	1	—	—	—
Recognized actuarial loss	5	14	19	—	1	1
Net period benefit cost	\$ 23	\$ 35	\$ 58	\$ —	\$ 4	\$ 4
Nine Months Ended September 30, 2003						
Components of net period benefit cost:						
Service cost	\$ 39	\$ 60	\$ 99	\$ 1	\$ 3	\$ 4

Interest cost	24	112	136	–	12	12
Expected return on assets	(13)	(108)	(121)	–	–	–
Amortization of prior service cost	(2)	3	1	–	(5)	(5)
Amortization of transitional liability	2	1	3	–	–	–
Recognized actuarial loss	15	46	61	–	1	1
Other	(20)	–	(20)	–	–	–
Net period benefit cost	\$ 45	\$ 114	\$ 159	\$ 1	\$ 11	\$ 12

6. Employee Benefit *(continued)*

<i>(In millions)</i>	Pensions			Postretirement		
	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
Three Months Ended September 30, 2003						
Components of net period benefit cost:						
Service cost	\$ 13	\$ 20	\$ 33	\$ 1	\$ 1	\$ 2
Interest cost	8	37	45	—	4	4
Expected return on assets	(4)	(36)	(40)	—	—	—
Amortization of prior service cost	(1)	2	1	—	(2)	(2)
Amortization of transitional liability	1	—	1	—	—	—
Recognized actuarial loss	5	15	20	—	—	—
Other	(7)	—	(7)	—	—	—
Net period benefit cost	\$ 15	\$ 38	\$ 53	\$ 1	\$ 3	\$ 4

7. Recent Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 changes the method of determining whether certain entities should be consolidated in AIG's consolidated financial statements. An entity is subject to FIN 46 and is called a Variable Interest Entity (VIE) if it has (i) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. A VIE is consolidated by its primary beneficiary, which is the party that has a majority of the expected losses or a majority of the expected residual returns of the VIE, or both. All other entities not considered VIEs are evaluated for consolidation under other guidance. In December 2003, FASB issued a revision to Interpretation No. 46 (FIN 46R).

The provisions of FIN 46R are to be applied immediately to VIEs created after January 31, 2003, and to VIEs in which AIG obtains an interest after that date. For VIEs in which AIG holds a variable interest that it acquired before February 1, 2003, FIN 46R was applied as of December 31, 2003. For any VIEs that must be consolidated under FIN 46R that were created before February 1, 2003, the assets, liabilities and noncontrolling interest of the VIEs were initially measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. In accordance with the transition provisions of FIN 46R, AIG recorded a gain of \$9 million reported as a cumulative effect of an accounting change for the fourth quarter of 2003 and added approximately \$4.7 billion of assets and liabilities in its consolidated balance sheet at December 31, 2003.

For further discussion on AIG's involvement with special purpose vehicles, see also Note 20 of Notes to Financial Statements in AIG's December 31, 2003 10-K.

In July 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1). This Statement was effective January 1, 2004, and requires AIG to recognize a liability for guaranteed minimum death benefits and other living benefits related to its variable annuity and variable life contracts and modifies certain disclosures and financial statement presentations for these products. AIG reported for the first quarter of 2004 a one-time cumulative accounting charge upon adoption of \$181 million to reflect the liability as of January 1, 2004. For the first nine months of 2004, the ongoing earnings impact of AIG's adoption of SOP 03-1 was a charge of \$10 million to benefit expense.

As of January 1, 2004, approximately \$11 billion of assets and liabilities representing most of the non-U.S. portion of AIG's separate and variable account assets and liabilities were reclassified in accordance with SOP 03-1 to several invested asset captions and to the Policyholders' contract deposits liability caption, respectively. Approximately \$11 billion of separate and variable account assets were reclassified as follows: \$4 billion to Short-term investments; \$4 billion to Equity securities – common stocks; \$2 billion to Fixed maturities – bond trading securities; and \$1 billion to various other asset captions.

Except as noted above, AIG reports variable contracts through separate and variable accounts when investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contract holder (traditional variable annuities). AIG also reports variable annuity and life contracts through separate and variable accounts where AIG contractually guarantees to the contract holder (variable contracts with guarantees) either (a) total deposits made to the contract less any partial withdrawals plus a minimum return (and in minor instances, no minimum returns), (Net Deposits Plus a Minimum Return) or (b) the highest contract value attained, typically on any anniversary date minus any subsequent withdrawals following the contract anniversary (Highest Contract Value Attained). These guarantees include benefits that are payable in the event of death, annuitization,



7. Recent Accounting Standards *(continued)*

or in other instances, at specified dates during the accumulation period. Such benefits are referred to as guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), and guaranteed minimum withdrawal benefit (GMWB) or guaranteed minimum account value benefits (GMAV), respectively. For AIG, GMDB is by far the most widely offered benefit.

The assets supporting the variable portion of both traditional variable annuities and variable contracts with guarantees are carried at fair value and reported as summary total separate and variable account assets with an equivalent summary total reported for liabilities. Amounts assessed against the contract holders for mortality, administrative, and other services are included in revenue and changes in liabilities for minimum guarantees are included in policyholder benefits in the Consolidated Statement of Income. Separate and variable account net investment income, net investment gains and losses, and the related liability changes are offset within the same line item in the Consolidated Statement of Income.

The vast majority of AIG's exposure on guarantees made to variable contract holders arises from GMDB. Details concerning AIG's GMDB exposures as of September 30, 2004 are as follows:

<i>(in billions)</i>	Net Deposits Plus a Minimum Return	Highest Contract Value Attained
Account Value ^(a)	\$ 53	\$ 11
Amount at Risk ^(b)	9	2
Average Attained Age of Contract Holders by Product	50-70 years	50-70 years
Range of Guaranteed Minimum Return Rates	0-5%	0%

(a) Included in Policyholders' Contract Deposits in the Consolidated Balance Sheet.

(b) Represents the amount of death benefit currently in excess of Account Value.

The following summarizes GMDB liabilities for guarantees on variable contracts reflected in the general account.

<i>(in millions)</i>	
Balance at January 1 *	\$ 479
Guaranteed benefits incurred	116
Guaranteed benefits paid	(78)
Balance at September 30, 2004	\$ 517

* Includes amounts from the one-time cumulative accounting charge resulting from the adoption of SOP 03-1.

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. AIG regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following assumptions and methodology were used to determine the domestic and foreign GMDB liability as of September 30, 2004:

- Data used was up to 5,000 stochastically generated investment performance scenarios.
- Mean investment performance assumptions ranged from approximately 4 percent to 10 percent depending on the block of business.
- Volatility assumptions ranged from 16 percent to 27 percent depending on the block of business.
- Mortality was assumed at between 60 percent and 100 percent of various life and annuity mortality tables.
- For domestic contracts, lapse rates vary by contract type and duration and ranged from 1 percent to 30 percent. For Japan, lapse rates ranged from 0 percent to 20 percent depending on the type of contract.
- For domestic contracts, the discount rate was approximately 8 percent. For Japan, the discount rate ranged from 2 percent to 7 percent.

In addition to GMDB, AIG's contracts currently include to a lesser extent GMIB. The GMIB liability is determined each period end by estimating the expected value of the annuitization benefits in excess of the projected account balance at the date of annuitization and recognizing the excess ratably over the accumulation period based on total expected assessments. AIG regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised. As of September 30, 2004, most of AIG's GMIB exposure was transferred via reinsurance agreements. Contracts with GMIB not reinsured have account values of \$1.0 billion.

AIG's contracts currently include a minimal amount of GMAV and GMWB. GMAV and GMWB are considered to be derivatives under Financial Accounting Standards Board Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," and are recognized at fair value through earnings. AIG enters into derivative contracts to partially hedge the economic exposure that arises from GMAV and GMWB.

In December 2003, FASB issued Statement of Financial Accounting Standards (FAS) No. 132 (Revised) "Employers' Disclosures About Pensions and Other Post Retirement Benefits" which revised disclosure requirements with respect to defined benefit plans. (See also Note 6.)

At the March 2004 meeting, the Emerging Issue Task Force (EITF) reached a consensus with respect to Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." On September 30, 2004, the FASB issued FASB Staff Position (FSP)

7. Recent Accounting Standards *(continued)*

EITF Issue 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" delaying the effective date of this guidance until the FASB has resolved certain implementation issues with respect to this guidance. The disclosure requirements of EITF 03-1 were previously adopted by AIG as of December 31, 2003 and reflected in the Annual Report on Form 10-K for that year for investments accounted for under FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." For all other investments within the scope of this Issue, the disclosures are effective for the year ending December 31, 2004.

At the September 2004 meeting, the EITF reached a consensus with respect to Issue No. 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share." This Issue addresses when the dilutive effect of contingently convertible debt (Co-Cos) with a market price trigger should be included in diluted earnings per share (EPS). The EITF concluded that these securities should be treated as convertible securities and included in a dilutive EPS calculation (if dilutive), regardless of whether the market price triggers (or other contingent features) have been met. Co-Cos are generally convertible into common shares of the issuer after the common stock has exceeded a predetermined threshold for a specific time period. The predetermined threshold is greater than the conversion price of the debt. The guidance is effective for the year ending December 31, 2004 and would be applied by retroactively restating previously reported EPS. The adoption of Issue No. 04-8 will not have a material impact on AIG's diluted EPS.

8. Information Provided in Connection with Outstanding Debt

The following condensed consolidating financial statements are provided in compliance with Regulation S-X of the Securities and Exchange Commission.

(a) American General Corporation (AGC) is a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AGC.

American General Corporation:

Condensed Consolidating Balance Sheet

September 30, 2004 (in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	\$ 2,096	\$ —	\$ 624,695	\$ (11,651)	\$ 615,140
Cash	14	—	2,058	—	2,072
Carrying value of subsidiaries and partially owned companies, at equity	79,399	24,668	8,934	(111,642)	1,359
Other assets	2,972	2,663	155,410	(3,196)	157,849
Total assets	\$ 84,481	\$ 27,331	\$ 791,097	\$ (126,489)	\$ 776,420
Liabilities:					
Insurance liabilities	\$ 362	\$ —	\$ 414,970	\$ (73)	\$ 415,259
Debt	3,743	2,482	96,052	(12,068)	90,209
Other liabilities	1,473	4,229	188,935	(2,781)	191,856
Total liabilities	5,578	6,711	699,957	(14,922)	697,324
Preferred shareholders' equity in subsidiary companies	—	—	193	—	193
Total shareholders' equity	78,903	20,620	90,947	(111,567)	78,903
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	\$ 84,481	\$ 27,331	\$ 791,097	\$ (126,489)	\$ 776,420

December 31, 2003 (in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	\$ 1,865	\$ —	\$ 524,151	\$ (10,500)	\$ 515,516
Cash	19	—	903	—	922
Carrying value of subsidiaries and partially owned companies, at equity	71,318	21,434	9,534	(100,858)	1,428
Other assets	2,885	2,602	155,836	(843)	160,480
Total assets	\$ 76,087	\$ 24,036	\$ 690,424	\$ (112,201)	\$ 678,346
Liabilities:					
Insurance liabilities	\$ 358	\$ —	\$ 362,355	\$ (31)	\$ 362,682
Debt	3,932	2,824	80,485	(9,963)	77,278
Other liabilities	544	3,849	164,006	(1,458)	166,941
Total liabilities	4,834	6,673	606,846	(11,452)	606,901
Preferred shareholders' equity in subsidiary companies	—	—	192	—	192
Total shareholders' equity	71,253	17,363	83,386	(100,749)	71,253
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	\$ 76,087	\$ 24,036	\$ 690,424	\$ (112,201)	\$ 678,346

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

Condensed Consolidating Statement of Income

Nine Months Ended September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	\$ 329	\$ —	\$ 12,634	\$ —	\$ 12,963
Equity in undistributed net income of consolidated subsidiaries	7,480	1,670	—	(9,150)	—
Dividend income from consolidated subsidiaries	943	65	—	(1,008)	—
Other	(435)	(84)	194	—	(325)
Income taxes (benefits)	287	(56)	3,806	—	4,037
Minority interest	—	—	(390)	—	(390)
Cumulative effect of an accounting change, net of tax	—	—	(181)	—	(181)
Net income (loss)	\$ 8,030	\$ 1,707	\$ 8,451	\$ (10,158)	\$ 8,030

Nine Months Ended September 30, 2003 <i>(in millions)</i>	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	\$ 354	\$ —	\$ 10,241	\$ —	\$ 10,595
Equity in undistributed net income of consolidated subsidiaries	5,887	1,254	—	(7,141)	—
Dividend income from consolidated subsidiaries	832	180	—	(1,012)	—
Other	(334)	(72)	(331)	—	(737)
Income taxes (benefits)	172	(14)	2,847	—	3,005
Minority interest	—	—	(286)	—	(286)
Net income (loss)	\$ 6,567	\$ 1,376	\$ 6,777	\$ (8,153)	\$ 6,567

Three Months Ended September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	\$ 128	\$ —	\$ 3,903	\$ —	\$ 4,031
Equity in undistributed net income of consolidated subsidiaries	2,307	563	—	(2,870)	—
Dividend income from consolidated subsidiaries	297	25	—	(322)	—
Other	(102)	(43)	72	—	(73)
Income taxes (benefits)	118	(42)	1,204	—	1,280
Minority interest	—	—	(166)	—	(166)
Net income (loss)	\$ 2,512	\$ 587	\$ 2,605	\$ (3,192)	\$ 2,512

Three Months Ended September 30, 2003 <i>(in millions)</i>	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	\$ 105	\$ —	\$ 3,657	\$ —	\$ 3,762
Equity in undistributed net income of consolidated subsidiaries	2,217	447	—	(2,664)	—
Dividend income from consolidated subsidiaries	287	72	—	(359)	—
Other	(140)	(32)	(86)	—	(258)
Income taxes (benefits)	132	(11)	948	—	1,069
Minority interest	—	—	(98)	—	(98)
Net income (loss)	\$ 2,337	\$ 498	\$ 2,525	\$ (3,023)	\$ 2,337

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

Condensed Consolidating Statements of Cash Flow

Nine Months Ended September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	\$ 1,782	\$ 780	\$ 17,870	\$ 20,432
Cash flows from investing:				
Invested assets disposed	(399)	—	142,660	142,261
Invested assets acquired	(176)	—	(196,132)	(196,308)
Other	(34)	(378)	(119)	(531)
Net cash used in investing activities	(609)	(378)	(53,591)	(54,578)
Cash flows from financing activities:				
Change in debts	(216)	(342)	13,401	12,843
Other	(854)	(60)	23,366	22,452
Net cash provided by (used in) financing activities	(1,070)	(402)	36,767	35,295
Change in cumulative translation adjustments	(107)	—	108	1
Change in cash	(4)	—	1,154	1,150
Cash at beginning of period	19	—	903	922
Cash at end of period	\$ 15	\$ —	\$ 2,057	\$ 2,072

Nine Months Ended September 30, 2003 <i>(in millions)</i>	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	\$ 806	\$ 1,269	\$ 18,482	\$ 20,557
Cash flows from investing:				
Invested assets disposed	(1,795)	—	114,727	112,932
Invested assets acquired	—	—	(150,151)	(150,151)
Acquisitions, net of cash acquired	—	—	(2,091)	(2,091)
Other	(45)	(836)	105	(776)
Net cash used in investing activities	(1,840)	(836)	(37,410)	(40,086)
Cash flows from financing activities:				
Change in debts	1,554	(377)	3,514	4,691
Other	(531)	(57)	15,186	14,598
Net cash provided by (used in) financing activities	1,023	(434)	18,700	19,289
Change in cumulative translation adjustments	—	—	24	24
Change in cash	(11)	(1)	(204)	(216)
Cash at beginning of period	18	1	1,146	1,165
Cash at end of period	\$ 7	\$ —	\$ 942	\$ 949

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

(b) AIG Liquidity Corp. is a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all obligations of AIG Liquidity Corp., which commenced operations in 2003.

AIG Liquidity Corp.:

Condensed Consolidating Balance Sheet

September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	\$ 2,096	\$ *	\$ 624,695	\$ (11,651)	\$ 615,140
Cash	14	*	2,058	-	2,072
Carrying value of subsidiaries and partially owned companies, at equity	79,399	-	33,602	(111,642)	1,359
Other assets	2,972	*	158,073	(3,196)	157,849
Total assets	\$ 84,481	\$ *	\$ 818,428	\$ (126,489)	\$ 776,420
Liabilities:					
Insurance liabilities	\$ 362	\$ -	\$ 414,970	\$ (73)	\$ 415,259
Debt	3,743	*	98,534	(12,068)	90,209
Other liabilities	1,473	*	193,164	(2,781)	191,856
Total liabilities	5,578	*	706,668	(14,922)	697,324
Preferred shareholders' equity in subsidiary companies	-	-	193	-	193
Total shareholders' equity	78,903	*	111,567	(111,567)	78,903
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	\$ 84,481	\$ *	\$ 818,428	\$ (126,489)	\$ 776,420

* Amounts significantly less than \$1 million.

December 31, 2003 <i>(in millions)</i>	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	\$ 1,865	\$ *	\$ 524,151	\$ (10,500)	\$ 515,516
Cash	19	*	903	-	922
Carrying value of subsidiaries and partially owned companies, at equity	71,318	-	30,968	(100,858)	1,428
Other assets	2,885	*	158,438	(843)	160,480
Total assets	\$ 76,087	\$ *	\$ 714,460	\$ (112,201)	\$ 678,346
Liabilities:					
Insurance liabilities	\$ 358	\$ -	\$ 362,355	\$ (31)	\$ 362,682
Debt	3,932	*	83,309	(9,963)	77,278
Other liabilities	544	*	167,855	(1,458)	166,941
Total liabilities	4,834	*	613,519	(11,452)	606,901
Preferred shareholders' equity in subsidiary companies	-	-	192	-	192
Total shareholders' equity	71,253	*	100,749	(100,749)	71,253
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	\$ 76,087	\$ *	\$ 714,460	\$ (112,201)	\$ 678,346

* Amounts significantly less than \$1 million.

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

Condensed Consolidating Statement of Income

Nine Months Ended September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	\$ 329	\$ *	\$ 12,634	\$ —	\$ 12,963
Equity in undistributed net income of consolidated subsidiaries	7,480	—	1,670	(9,150)	—
Dividend income from consolidated subsidiaries	943	—	65	(1,008)	—
Other	(435)	—	110	—	(325)
Income taxes	287	*	3,750	—	4,037
Minority interest	—	—	(390)	—	(390)
Cumulative effect of an accounting change, net of tax	—	—	(181)	—	(181)
Net income (loss)	\$ 8,030	\$ *	\$ 10,158	\$ (10,158)	\$ 8,030

* Amounts significantly less than \$1 million.

Three Months Ended September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	\$ 128	\$ *	\$ 3,903	\$ —	\$ 4,031
Equity in undistributed net income of consolidated subsidiaries	2,307	—	563	(2,870)	—
Dividend income from consolidated subsidiaries	297	—	25	(322)	—
Other	(102)	—	29	—	(73)
Income taxes	118	*	1,162	—	1,280
Minority interest	—	—	(166)	—	(166)
Net income (loss)	\$ 2,512	\$ *	\$ 3,192	\$ (3,192)	\$ 2,512

* Amounts significantly less than \$1 million.

Condensed Consolidating Statements of Cash Flow

Nine Months Ended September 30, 2004 <i>(in millions)</i>	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	\$ 1,782	\$ *	\$ 18,650	\$ 20,432
Cash flows from investing:				
Invested assets disposed	(399)	—	142,660	142,261
Invested assets acquired	(176)	—	(196,132)	(196,308)
Other	(34)	*	(497)	(531)
Net cash used in investing activities	(609)	*	(53,969)	(54,578)
Cash flows from financing activities:				
Change in debts	(216)	—	13,059	12,843
Other	(854)	*	23,306	22,452
Net cash provided by (used in) financing activities	(1,070)	*	36,365	35,295
Change in cumulative translation adjustments	(107)	—	108	1
Change in cash	(4)	*	1,154	1,150
Cash at beginning of period	19	—	903	922
Cash at end of period	\$ 15	\$ *	\$ 2,057	\$ 2,072

* Amounts significantly less than \$1 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report and other publicly available documents may include, and AIG's officers and representatives may from time to time make, statements which may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These 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 of AIG's control. These statements may address, among other things, AIG's strategy for growth, product development, regulatory approvals, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause AIG's actual results to differ, possibly materially, from those in the specific forward-looking statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. AIG is not under any obligation to (and expressly disclaims any such obligations to) update or alter any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

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. Statutory underwriting profit (loss) and combined ratios are presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance used in the insurance industry and thus allow more meaningful comparisons with AIG's insurance competitors. AIG has also incorporated into this discussion a number of parenthetical cross-references to additional information included throughout this Form 10-Q to assist readers seeking related information on a particular subject.

Overview

AIG's operations in 2004 are conducted by its subsidiaries principally through four operating segments: General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. Through these segments, AIG provided insurance and investment products and services to both businesses and individuals in over 130 countries and jurisdictions. This geographic product and service diversification is one of AIG's major strengths and sets it apart from its competitors. Although regional economic downturns or political upheaval could negatively impact parts of AIG's operations, AIG believes that this diversification makes it unlikely that regional difficulties would have a material impact on its operating results, financial condition or liquidity.

Beginning with the first quarter of 2004, AIG reported Retirement Services results in the same segment as Life Insurance, reflecting the convergence of protective and retirement products and AIG's current management of these operations. To conform to 2004 presentation, 2003 accounts have been restated.

For further detail, see the respective discussions on the results of the Life Insurance & Retirement Services and Asset Management in the Operating Review herein.

AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. In the United States, AIG companies are the largest underwriter of commercial and industrial insurance and one of the largest life insurance and retirement services operations as well. AIG's Financial Services businesses include commercial aircraft leasing, capital markets and consumer finance, both in the United States and abroad. AIG also provides asset management services and sells guaranteed investment contracts (GICs) to institutions and individuals.

AIG's 2004 performance reflects implementation of various long-term strategies and defined goals in its various operating segments.

A primary goal of AIG in managing its General Insurance operations is to achieve an underwriting profit – maintaining a combined loss and expense ratio under 100. To achieve this end, AIG is disciplined in its risk selection and premiums must be adequate to cover the risk accepted. AIG believes in strict control of expenses, so it historically has one of the lowest expense ratios in the industry.

AIG patiently builds relationships in markets around the world where it sees long-term growth opportunities. For example, AIG's ability to expand its Chinese operations more quickly and extensively than its competitors is the result of relationships developed over nearly 30 years. AIG's more recent extensions of operations into India, Brazil, Russia and other emerging markets follow the same pattern. Moreover, AIG believes in investing in the economies and infrastructures of these countries and growing with them. When AIG companies enter a new jurisdiction, they typically offer both basic protection and savings products. As the economies evolve, AIG's products evolve with them, to more complex and investment-oriented models.

Another central focus of AIG operations in current years is the development and expansion of new distribution channels. During the third quarter of 2004, AIG entered into an agreement with the Sumitomo Life Insurance Company (Sumitomo) to market insurance products underwritten by American Life Insurance Company (ALICO) in Japan. Sumitomo will initially market ALICO's cancer insurance coverage through the Sumitomo sales channel of approximately 40,000 sales representatives. ALICO and Sumitomo have also agreed to consider expanding the relationship to include other insurance products in the future. In late 2003, AIG entered into an agreement with PICC Property and Casualty Company, Ltd. (PICC) which will enable AIG companies to market accident and health products throughout China through PICC's agency system. AIG participates in the underwriting results through a reinsurance agreement. Other examples of new distribution channels used both domestically and overseas include banks, affinity groups and e-commerce.

Growth for AIG may be generated both internally and through acquisitions which both fulfill strategic goals and offer adequate return on investment. In recent years, the acquisitions of AIG Star Life Insurance Co., Ltd. (AIG Star Life) and AIG Edison Life Insurance Company (AIG Edison) have broadened AIG's penetration of the Japanese market, the second largest for life insurance in the world. These acquisitions broadened AIG's distribution channels and will result in operating efficiencies as they are integrated into AIG's previously existing companies operating in Japan.

AIG provides leadership on issues of concern to the global and local economies as well as the insurance and financial services industries. In recent years, tort reform and legislation to deal with the asbestos problem have been key issues,

while in prior years trade legislation and Superfund have been issues of concern.

The following table summarizes **AIG's revenues, income before income taxes, minority interest and cumulative effect of an accounting change and net income for the nine months ended September 30, 2004 and 2003:**

<i>(in millions)</i>	2004	2003
Total revenues	\$ 72,857	\$ 59,124
Income before income taxes, minority interest and cumulative effect of an accounting change	12,638	9,858
Net income	\$ 8,030	\$ 6,567

Consolidated Results

The 23.2 percent growth in revenues in the first nine months of 2004 was primarily attributable to the growth in net premiums earned from global General Insurance operations as well as growth in both General Insurance and Life Insurance & Retirement Services net investment income and GAAP Life Insurance & Retirement Services premiums. An additional factor in 2004 was the significant decline in aggregate realized capital losses in the first nine months of 2004 compared to the realized capital losses included in the same period of 2003.

The decline in realized capital losses in 2004 reflects an improved economy, stronger corporate balance sheets and a significantly lower level of impairment loss provisions. The realized capital losses in 2003 reflect primarily impairment loss provisions. Upon the ultimate disposition of these holdings, a portion of these losses may be recovered depending on future market conditions.

AIG's income before income taxes, minority interest and cumulative effect of an accounting change increased 28.2 percent in the first nine months of 2004 when compared to the same period of 2003. General Insurance and Life Insurance & Retirement Services operating income gains, together with the decrease in realized capital losses, generated the increase over 2003 in both pretax income and net income. Catastrophe losses in the first nine months of 2004 were \$814 million pretax and \$512 million, net of tax and minority interest, compared to \$73 million pretax and \$46 million, net of tax and minority interest, in the same period of 2003.

The following table summarizes the operations of each principal segment for the nine months ended September 30, 2004 and 2003. (See also Note 2 of Notes to Financial Statements.)

<i>(in millions)</i>	2004	2003
Revenues:		
General Insurance ^(a)	\$ 31,686	\$ 25,258
Life Insurance & Retirement Services ^(b)	32,637	26,273
Financial Services ^(c)	5,768	5,495
Asset Management ^(d)	2,927	2,458
Other	(161)	(360)
Consolidated	\$ 72,857	\$ 59,124
Operating Income^{(e)(f)}:		
General Insurance	\$ 4,004	\$ 3,596
Life Insurance & Retirement Services	6,302	4,659
Financial Services	1,788	1,762
Asset Management	869	578
Other ^(g)	(325)	(737)
Consolidated	\$ 12,638	\$ 9,858

(a) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).

(b) Represents the sum of GAAP Life Insurance & Retirement Services premiums, net investment income and realized capital gains (losses).

(c) Represents interest, lease and finance charges.

(d) Represents management and advisory fees, and net investment income with respect to GICs.

(e) Represents income before income taxes, minority interest and cumulative effect of an accounting change.

(f) Catastrophe losses for the first nine months of 2004 were \$814 million compared to \$73 million for the same period of 2003.
(g) Represents other income (deductions) – net and other realized capital gains (losses).

General Insurance

AIG's General Insurance operations provide property and casualty products and services throughout the world. The increase in General Insurance operating income in the first nine months of 2004 compared to the same period of 2003 was primarily attributable to strong growth in operating income with respect to Domestic Brokerage Group operations. General Insurance operating income in 2004 includes \$736 million of catastrophe losses from hurricanes and typhoons compared to \$73 million in the same period of 2003. In addition, General Insurance operations had realized capital gains in 2004 compared to realized capital losses in 2003.

Life Insurance & Retirement Services

AIG's Life Insurance & Retirement Services operations provide traditional insurance, financial and investment products throughout the world. AIG's foreign operations provide over 50 percent of AIG's Life Insurance & Retirement Services operating income.

Life Insurance & Retirement Services operating income increased by 35.3 percent in the first nine months of 2004 compared to the same period of 2003. This increase resulted from growth in each of AIG's principal Life Insurance &

Retirement Services businesses and the capital gains realized in 2004 rather than the capital losses realized in 2003.

Financial Services

AIG's Financial Services subsidiaries engage in diversified financial products and services including aircraft leasing, capital market transactions, consumer finance and insurance premium financing.

Financial Services operating income increased in the first nine months of 2004 compared to the same period of 2003. The increase occurred because of the growth in Consumer Finance operating income, despite the impact of ILFC's disposition of approximately \$2 billion in aircraft through securitizations in the third quarter of 2003 and first quarter of 2004 and the reduced income from Capital Markets operations. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations.

Asset Management

AIG's Asset Management operations provide asset management services and sell GICs. These products and services are offered to individuals and institutions, both domestically and overseas.

Asset Management operating income increased 50.3 percent in the first nine months of 2004 when compared to the same period of 2003 as a result of the upturn in worldwide financial markets and a strong global product portfolio.

Capital Resources

At September 30, 2004, AIG had total shareholders' equity of \$78.90 billion and total borrowings of \$90.21 billion. At that date, \$81.29 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

During the period from January 1, 2004 through November 5, 2004, AIG repurchased in the open market 13,310,200 shares of its common stock.

Liquidity

At September 30, 2004, AIG's consolidated invested assets included \$16.74 billion in cash and short-term investments. Consolidated net cash provided from operating activities in the first nine months of 2004 amounted to \$20.43 billion. AIG believes that its liquid assets, cash provided by operations and access to the capital markets will enable it to meet any foreseeable cash requirements.

Outlook

With respect to overall premium rates in the General Insurance business, industry pricing has eroded in some classes of business. Despite this, AIG believes it will still be able to identify profitable opportunities and build attractive new business as a result of AIG's broad product line and extensive distribution reach. Both the Domestic Brokerage Group (DBG) and the Foreign General insurance group are benefitting from the flight to quality. AIG also continues to be able to modify and limit its contractual obligations by adding appropriate exclusions and policy restrictions. AIG expects total premiums to increase in 2004 resulting in positive growth in cash flow for investments. Thus, General Insurance net investment income is expected to rise in future quarters even in the current low interest rate environment.

In October 2003, AIG entered into an agreement with PICC that will enable AIG to market its accident and health products through PICC's 4,300 branch offices throughout China. PICC has over 70 percent of the non-life market in China and AIG expects substantial opportunity for growth through this new distribution channel.

In the Life Insurance & Retirement Services segment, AIG expects overall continued growth through expansion in China, where AIG was the first foreign insurance organization to have wholly owned Life Insurance & Retirement Services operations in eight major cities. AIG expects continued growth in India, Korea and Vietnam as well as in the more established Japan market where retirement services operations have developed quickly.

During the third quarter of 2004, AIG entered into an agreement with Sumitomo to market insurance products underwritten by ALICO in Japan. Sumitomo will initially market ALICO's cancer insurance coverage through the Sumitomo sales channel of approximately 40,000 sales representatives. ALICO and Sumitomo have also agreed to consider expanding the relationship to include other insurance products in the future.

AIG Edison Life was acquired in August of 2003. AIG Edison Life adds to the current agency force in Japan, and provides alternative distribution channels including banks, financial advisers, and corporate and government employee relationships. AIG Edison Life's integration into AIG's existing Japanese operations will provide future operating efficiencies.

Domestically, AIG expects continued operating growth in 2004 as distribution channels are expanded and new products are introduced.

In the airline industry, changes in market conditions are not immediately apparent in operating results. Lease rates have firmed considerably, as a result of strong demand spurred by the recovering global commercial aviation market, especially in Asia. Sales have

begun to increase, and AIG expects them to be even stronger in future periods. Therefore, AIG believes that improvements in that market commencing in 2003 will be gradually reflected in ILFC's results in 2004. In the Capital Markets operations, the integration of AIG

Trading Group Inc. and its subsidiaries (AIGTG) into the operations of AIG Financial Products Corp. and its subsidiaries (AIGFP) created operating efficiencies that will continue to be realized and product synergies that should enhance 2004 results, although quarter to quarter variations are to be expected in this transaction-oriented business. AIG also expects increased contributions to Financial Services revenues and income from its consumer finance operations (Consumer Finance) both domestically, as a result of the improving economy, and overseas, as expansion of credit card operations continues and economic conditions improve.

AIG expects its Asset Management operations to continue to benefit from the recovery in the equity markets and global economy. GICs, which are sold domestically and abroad to both institutions and individuals, are written on an opportunistic basis when market conditions are favorable.

AIG has many promising growth initiatives underway around the world in its insurance and other operations. Cooperative agreements such as those in Russia and with PICC and Sumitomo are expected to expand distribution networks for AIG's products and investment opportunities and provide models for future growth.

Recent Developments

As previously disclosed, in early October, AIG was advised by the Staff of the Securities and Exchange Commission that the Staff was considering recommending that the SEC bring a civil action against AIG and AIG Financial Products Corp. (AIGFP) alleging violations of the federal securities laws with respect to the marketing and sale by AIGFP to public companies of certain products involving structured financial transactions, as well as with respect to certain press releases issued by AIG which reported the Staff notification. AIG also reported that AIGFP had been informed by the U.S. Department of Justice that it was a target of an investigation involving possible violations of the federal securities laws with respect to such products. On October 21, 2004, AIG announced that it had been informed by the U.S. Attorney for the Southern District of Indiana that it was a target of a federal grand jury investigation arising out of a contract between AIG's subsidiary, National Union Fire Insurance Company of Pittsburgh, Pa., and Brightpoint, Inc. that concerns "non-traditional insurance" or "income smoothing products" marketed to clients by AIG. On October 25, 2004, AIG announced that it intends to seek a resolution of these matters by reaching a prompt settlement on terms satisfactory to the Government and AIG. AIG is currently discussing proposed settlement terms with the Government, but a settlement has not yet been completed.

As previously disclosed, on October 14, 2004, the New York State Attorney General brought a lawsuit challenging certain insurance brokerage practices related to contingent commissions. Neither AIG nor any of its subsidiaries is a defendant in that action, although two employees of an AIG subsidiary have pleaded guilty in connection with the Attorney General's investigation. Regulators from several additional states have commenced investigations into the same matters, and AIG expects there will be additional investigations as well. Various parties, including insureds and shareholders, have also asserted putative class action and other claims against AIG or its subsidiaries alleging, among other things, violations of the antitrust and federal securities laws, and AIG expects that additional claims are likely.

Various federal and state regulatory agencies are reviewing certain other transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries.

AIG cannot at this time estimate its potential costs related to these matters and accordingly, no reserve is being established in AIG's financial statements at this time. In the opinion of AIG management, AIG's ultimate liability for the matters referred to above is not likely to have a material adverse effect on AIG's consolidated financial condition, although it is possible that the effect would be material to AIG's consolidated results of operations for an individual quarterly reporting period.

On October 11, 2004, Congress passed the American Jobs Creation Act of 2004 (Jobs Creation Act) and President Bush signed the bill into law on October 22, 2004. The Jobs Creation Act includes a number of provisions that are expected to affect current business practices. For example, the Jobs Creation Act creates a temporary incentive for U.S. multinationals to repatriate certain accumulated income earned abroad by providing a special 85 percent dividends received deduction, subject to specific reinvestment and repatriation guidelines and certain limitations. Companies may elect to take the temporary deduction in 2004 or 2005. AIG believes that the impact of the Jobs Creation Act on its results of operations and financial condition will not be significant.

Critical Accounting Estimates

AIG considers its most critical accounting estimates those with respect to reserves for losses and loss expenses, future policy benefits for life and accident and health contracts, deferred policy acquisition costs, and fair value determinations for certain Capital Markets assets and liabilities. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG's results of operations would be directly impacted.

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, AIG's critical accounting estimates are discussed in detail. The major categories for which assumptions are developed and used to

establish each critical accounting estimate are highlighted below.

Reserves for Losses and Loss Expenses (General Insurance):

- *Loss trend factors:* used to establish expected loss ratios for subsequent accident years based on the projected loss ratio with respect to prior accident years.
- *Expected loss ratios for the latest accident year:* for example, accident year 2003 for the year end 2003 loss reserve analysis. For low frequency, high severity classes such as Excess Casualty and Directors and Officers' Liability, expected loss ratios generally are utilized for at least the three most recent accident years.
- *Loss development factors:* used to project the reported losses for each accident year to an ultimate amount.

Future Policy Benefits for Life and Accident and Health Contracts (Life Insurance & Retirement Services):

- *Interest rates:* which vary by territory, year of issuance and products.
- *Mortality, morbidity and surrender rates:* based upon actual experience by geographical region modified to allow for variation in policy form.

Deferred Policy Acquisition Costs (General Insurance):

- Recoverability based upon the current profitability of the underlying insurance contracts.

Life Insurance & Retirement Services:

- *Estimated gross profits:* to be realized over the estimated duration of the contracts (nontraditional life). Estimated gross profits include investment income and gains and losses on investments less required interest, actual mortality and other expenses.

Fair Value Determinations of Certain Assets and Liabilities (Financial Services – Capital Markets):

- *Valuation models:* utilizing factors, such as market liquidity and current interest, foreign exchange and volatility rates.
- AIG attempts to secure reliable and independent current market price data, such as published exchange rates from external subscription services such as Bloomberg or Reuters or third party broker quotes for use in this model. When such prices are not available, AIG uses an internal methodology, which includes interpolation or extrapolation from verifiable prices from trades occurring on dates nearest to the dates of the transactions.

Operating Review

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.

Domestic general insurance operations are comprised of DBG, which includes The Hartford Steam Boiler Inspection and Insurance Company (HSB); Transatlantic Holdings, Inc. (Transatlantic); Personal Lines, including 21st Century Insurance Group (21st Century); and United Guaranty Corporation (Mortgage Guaranty).

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

Transatlantic offers, through its reinsurance company subsidiaries, reinsurance capacity, both domestically and overseas, on a treaty and facultative basis for a full range of property and casualty products.

Personal Lines engages in the mass marketing of personal lines insurance, primarily private passenger auto and personal umbrella coverages, as well as providing comprehensive insurance coverage to high net-worth households through its Private Client Group.

Mortgage Guaranty provides guaranty insurance to mortgage providers primarily with respect to conventional first mortgage loans on single family dwellings and condominiums. During 2003, Mortgage Guaranty commenced providing guaranty insurance to providers of student loans.

AIG's Foreign General insurance group accepts risks primarily underwritten through AIU, a marketing unit consisting of wholly owned agencies and insurance entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. (See also Note 2 of Notes to Financial Statements.)

As previously noted, AIG believes it should present and discuss its financial information in a manner most meaningful to its investors. Accordingly, in its General Insurance business, AIG uses certain non-GAAP measures, where AIG has determined these measurements to be useful and meaningful.

A critical discipline of a successful general insurance business is the objective to produce operating income from underwriting exclusive of investment related income. When underwriting is not profitable, premiums are inadequate to pay for insured losses and underwriting related expenses. In these situations, the addition of general insurance related investment income and realized capital gains may, however, enable a general insurance business to produce operating income. If underwriting losses persist over extended periods, an insurance company will

likely not continue to exist as a going concern. For these reasons, AIG views underwriting profit to be critical in the overall evaluation of performance. Although in and of itself not a GAAP measurement, AIG believes this

measurement is a useful and meaningful disclosure. (See also the discussion under "Liquidity" herein.)

General Insurance operating income is comprised of underwriting profit, net investment income and realized capital gains and losses. These components, as well as net premiums written, net premiums earned and statutory ratios for the nine months ending September 30, 2004 and 2003 were as follows:

<i>(in millions, except ratios)</i>	2004	2003
Net premiums written:		
Domestic General		
DBG	\$ 17,546	\$ 14,734
Transatlantic	2,822	2,472
Personal Lines	3,288	2,704
Mortgage Guaranty	453	390
Foreign General	7,214	5,753
Total	\$ 31,323	\$ 26,053
Net premiums earned:		
Domestic General		
DBG	\$ 16,247	\$ 12,829
Transatlantic	2,729	2,319
Personal Lines	3,175	2,644
Mortgage Guaranty	398	365
Foreign General	6,500	5,175
Total	\$ 29,049	\$ 23,332
Underwriting profit (loss):		
Domestic General		
DBG ^(a)	\$ 456	\$ 721
Transatlantic ^(a)	(46)	75
Personal Lines ^(a)	115	73
Mortgage Guaranty	207	208
Foreign General ^(a)	635	593
Total	\$ 1,367	\$ 1,670
Net investment income:		
Domestic General		
DBG	\$ 1,689	\$ 1,296
Transatlantic	220	202
Personal Lines	135	100
Mortgage Guaranty	89	111
Intercompany adjustments and eliminations – net	–	5
Foreign General	485	543
Total	\$ 2,618	\$ 2,257
Realized capital gains (losses)	19	(331)
Operating income	\$ 4,004	\$ 3,596
Domestic General:		
Loss Ratio	79.87	77.55
Expense Ratio	17.25	16.69
Combined Ratio	97.12	94.24
Foreign General:		
Loss Ratio	61.04	60.94

Expense Ratio	27.68	26.87
Combined ratio	88.72	87.81
Consolidated:		
Loss Ratio ^(b)	75.65	73.87
Expense Ratio	19.65	18.94
Combined Ratio	95.30	92.81

(a) Catastrophe losses for the first nine months of 2004 by segment were: DBG \$406 million, Personal Lines \$25 million, Transatlantic \$165 million and Foreign General \$140 million. Catastrophe losses for the first nine months of 2003 by segment were: DBG \$48 million, Personal Lines \$5 million, Transatlantic \$4 million and Foreign General \$16 million.

(b) The impact of catastrophe losses on the loss ratio was an increase of 2.53 in 2004 and 0.31 in 2003.

General Insurance Results

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. Thus, the net unearned premium reserve is not fully recognized in income as net premiums earned until the end of the policy period.

DBG has maintained a disciplined approach to pricing and risk selection and chose not to renew approximately \$207 million in premiums in the third quarter of 2004 where pricing, terms and conditions or loss experience did not meet underwriting standards. Like all AIG companies, DBG is benefiting from the flight to quality, a strong profit center focus and growing distribution channels. Overall, DBG's net premiums written increased in the first nine months of 2004 over 2003. AIG believes that moderate premium rate increases will continue in 2004 particularly with respect to long tail lines of business where the insurer's stability is critical to the insured. Based on historical patterns, AIG believes that overall growth in net premiums written will slow as competition for premiums increases in certain lines of business.

Transatlantic net premiums written increased as a result of growth in its international business.

Personal Lines net premiums written in the first nine months of 2004 include \$301 million from the domestic insurance operations of GE that were acquired in August of 2003. The increase in net premiums written apart from this acquisition resulted from increased marketing efforts as well as rate increases in several states. The increase in underwriting profits in the first nine months of 2004 when compared to the same period of 2003 resulted from premium rate increases and growth in net premiums written and earned. Underwriting profits are expected to continue to increase through 2004 as a result of continued marketing efforts, loss cost stabilization and the full year impact of the acquisition.

Mortgage Guaranty net premiums written increased 16.1 percent in the first nine months of 2004 when compared to the same period of 2003. Premiums grew and refinancings declined as interest rates rose. This growth was offset by a slight increase in the delinquency ratio, which is still below the industry average. UGC is moving forward with plans to enter new markets around the world.

Foreign General insurance net premiums written growth was due to premium rate increases as well as flight to quality. Every major region of the worldwide network contributed to this performance. The Far East region had excellent growth. In Japan, corporate and personal accident business expanded. Commercial lines in Europe continue to exhibit strong growth, as did AIG's personal lines operations in Brazil and

Latin America. Additionally, AIG's joint venture in India has expanded its commercial lines leadership among the private sector companies.

In comparing the foreign currency exchange rates used to translate the results of AIG's Foreign General operations during the first nine months of 2004 to those foreign currency exchange rates used to translate AIG's Foreign General results during the same period of 2003, the U.S. dollar weakened slightly in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of the preparation of the consolidated financial statements, total General Insurance net premiums written were approximately 2.3 percentage points more than they would have been if translated utilizing those foreign currency exchange rates which prevailed during the same period of 2003.

AIG, along with most General Insurance entities, uses the loss ratio, the expense ratio and the combined ratio as measures of performance. The loss ratio is the sum of losses and loss expenses incurred divided by net premiums earned. The expense ratio is statutory underwriting expenses divided by net premiums written. The combined ratio is the sum of the loss ratio and the expense ratio. These ratios are relative measurements that describe for every \$100 of net premiums earned or written, the cost of losses and statutory expenses, respectively. The combined ratio presents the total cost per \$100 of premium production. A combined ratio below 100 demonstrates underwriting profit; a combined ratio above 100 demonstrates underwriting loss.

Underwriting profit is measured in two ways: statutory underwriting profit and Generally Accepted Accounting Principles (GAAP) underwriting profit.

Statutory underwriting profit is arrived at by reducing net premiums earned by net losses and loss expenses incurred and net expenses incurred. Statutory accounting generally requires immediate expense recognition and ignores the matching of revenues and expenses as required by GAAP. That is, for statutory purposes, expenses are recognized immediately, not over the same period that the revenues are earned.

A basic premise of GAAP accounting is the recognition of expenses at the same time revenues are earned, the accounting principle of matching. Therefore, to convert underwriting results to a GAAP basis, acquisition expenses are deferred (deferred policy acquisition costs (DAC)) and amortized over the period the related net premiums written are earned. Accordingly, the statutory underwriting profit has been adjusted as a result of acquisition expenses being deferred as required by GAAP. DAC is reviewed for recoverability and such review requires management judgment. (See also Critical Accounting Estimates herein.)

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

AIG's General Insurance results reflect the impact of incurred losses from catastrophes of \$736 million and \$73 million, in the first nine months and third quarter of 2004 and 2003, respectively. The impact of losses caused by catastrophes can fluctuate widely from year to year, making comparisons of recurring type business more difficult. With respect to catastrophe losses, AIG believes that it has taken appropriate steps, such as careful exposure selection and obtaining reinsurance coverage, to reduce the impact of the magnitude of possible future losses. The occurrence of one or more catastrophic events of unanticipated frequency or severity, such as a terrorist attack, earthquake or hurricane, that causes insured losses, however, could have a material adverse effect on AIG's results of operations, liquidity or financial condition.

General Insurance net investment income grew in the first nine months of 2004 when compared to the same period of 2003. AIG is benefiting from the strong cash flow of the past two years, higher interest rates, dividend income and good private equity results. (See also the discussion under "Liquidity" herein.)

Realized capital gains and losses resulted from the ongoing investment management of the General Insurance portfolios within the overall objectives of the General Insurance operations. The realized capital gains in the first nine months of 2004 reflect an improved economy, stronger corporate balance sheets and a significantly lower level of impairments. The realized capital losses in the first nine months of 2003 reflect primarily impairment loss provisions for both equity and fixed income holdings. (See the discussion on "Valuation of Invested Assets" herein.)

The increase in General Insurance operating income in the first nine months of 2004 was primarily attributable to strong profitable growth in DBG operations, the improvement in net investment income and the capital gains realized in 2004 rather than the capital losses realized in 2003.

The contribution of General Insurance operating income to AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change was 31.7 percent in the first nine months of 2004 compared to 36.5 percent in the same period of 2003. The decrease in contribution percentage in 2004 was influenced by the impact of the catastrophe losses.

Reinsurance

AIG is a major purchaser of reinsurance for its General Insurance operations. AIG is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance pro-



grams. AIG insures risks globally and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. AIG purchases reinsurance to mitigate its catastrophic exposure. However, one or more catastrophe losses could negatively impact AIG's reinsurers and result in an inability of AIG to collect reinsurance recoverables. AIG's reinsurance department evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through the use of state of the art industry recognized program models, among other techniques. AIG supplements these models through continually monitoring the risk exposure of AIG's worldwide general insurance operations and adjusting such models accordingly. While reinsurance arrangements do not relieve AIG from its direct obligations to its insureds, an efficient and effective reinsurance program substantially limits AIG's probable losses.

AIG's consolidated general reinsurance assets amounted to \$25.44 billion at September 30, 2004 and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at September 30, 2004 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2003, approximately 47 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, the majority of these balances were collateralized. The remaining 53 percent of the general reinsurance assets were from authorized reinsurers. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Approximately 90 percent of the balances with respect to authorized reinsurers are from reinsurers rated A (excellent) or better, as rated by A.M. Best, or A (strong) or better, as rated by Standard & Poor's. Through September 30, 2004, these distribution percentages have not changed significantly. This rating is a measure of financial strength.

AIG maintains an allowance for estimated unrecoverable reinsurance and has been largely successful in its previous recovery efforts. AIG's allowance for estimated unrecoverable reinsurance approximated \$140 million as of September 30, 2004. At that date, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

AIG's Reinsurance Security Department conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers, both foreign and domestic. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed, and has sufficient financial capacity, and the local economic environment in which a foreign reinsurer operates. This department also reviews the nature of the risks ceded and the need for collateral. For example, in AIG's treaty reinsurance contracts, AIG includes credit triggers that require a reinsurer to post collateral when a referenced event occurs. Such credit triggers include, but are not limited to, insurer financial strength rating downgrades, policyholder surplus declines at or below a certain predetermined level or a certain predetermined level of a reinsurance recoverable being reached. In addition, AIG's Credit Risk Committee reviews the credit limits for and concentrations with any one reinsurer.

AIG enters into certain intercompany reinsurance transactions for its general and life operations. AIG enters these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All material intercompany transactions have been eliminated in consolidation.

At September 30, 2004, the consolidated general reinsurance assets of \$25.44 billion include reinsurance recoverables for paid losses and loss expenses of \$3.22 billion and \$18.33 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated by management. Any adjustments thereto are reflected in income currently. It is AIG's belief that the ceded reserves at September 30, 2004 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

Reserve for Losses and Loss Expenses

The table below classifies as of September 30, 2004 the components of the General Insurance reserve for losses and loss expenses (loss reserves) with respect to major lines of business on a statutory basis*:

(in millions)

Other Liability Occurrence	\$ 15,602
Other Liability Claims Made	11,040
Workers Compensation	8,387
Auto Liability	5,516
International	3,216
Property	4,260
Reinsurance	2,542
Medical Malpractice	2,196
Aircraft	1,690
Products Liability	1,336
Accident and Health	1,120
Fidelity/ Surety	974
Other	4,271
Total	\$ 62,150

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

These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR and loss expenses.

At September 30, 2004, General Insurance net loss reserves increased \$7.17 billion from the prior year end to \$43.82 billion. In the first nine months of 2004, net adverse reported loss development for the prior accident years was estimated to be approximately \$700 million. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated by management. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the General Insurance net loss reserves are adequate to cover all General Insurance net losses and loss expenses as of September 30, 2004. While AIG annually reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not adversely develop and materially exceed AIG's loss reserves as of September 30, 2004. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on future results of operations.

In a very broad sense, the General Insurance loss reserves can be categorized into two distinct groups, one group being long tail casualty lines of business. Such lines include excess and umbrella liability, directors and officers' liability, professional liability, medical malpractice, general liability, products' liability, and related classes. The other group is short tail lines of business consisting principally of property lines, personal lines and certain classes of casualty lines.

For operations writing short tail coverages, such as property coverages, the process of recording quarterly loss reserve changes is geared toward maintaining an appropriate reserve level 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 be maintained regardless of the loss ratio emerging in the current quarter. The 20 percent factor is adjusted to reflect changes in rate levels, loss reporting patterns, known exposures to large unreported losses, or other factors affecting the particular class of business.

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

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

A number of actuarial assumptions are made in the review of reserves for each line of business.

For longer tail lines 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 ratio for prior accident years.
- Expected loss ratios for the latest accident year (i.e., accident year 2003 for the year end 2003 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 impact of rate changes and other quantifiable factors. For low-frequency, high severity classes such as Excess Casualty and Directors and Officers' Liability (D&O), expected loss ratios generally are utilized 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.

AIG records quarterly changes in loss reserves for each of its many General Insurance profit centers. The overall change in AIG's loss reserves is based on the sum of these profit center level changes. For most profit centers which write longer tail classes of casualty coverage, 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 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.

The process of determining the current loss ratio for each class or business segment begins in the profit centers in the latter part of the previous year. The loss ratios determined for each profit center are based on a variety of factors. These include, but are not limited to, the following considerations: prior accident year and policy year loss ratios; actual and anticipated rate changes; actual and anticipated changes in coverage, reinsurance, or mix of business; actual and anticipated changes in external factors impacting results, such as trends in loss costs or in the legal and claims environment. Each profit center's loss ratio for the following year is subject to review by the profit center's management, by actuarial and accounting staffs, and ultimately by senior management. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios based thereon 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 would be changed to reflect the revised assumptions.

A comprehensive annual loss reserve review is conducted in the fourth quarter of each year for each AIG General Insurance subsidiary. These reviews are conducted in full detail for each class or line of business for each subsidiary, and thus consist of literally hundreds of individual analyses. The purpose of these reviews is to confirm the reasonableness of the reserves carried by each of the individual subsidiaries, and thereby of AIG's overall carried reserves. The reserve analysis for each business class 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 for example the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial method(s) to employ for each business class. Additionally, they must determine the appropriate segmentation of data or segments from which the adequacy of the reserves can be most accurately tested. In the course of these detailed reserve reviews for each business segment, a point estimate of the loss reserve is generally determined. The sum of these point estimates for each of the individual business classes for each subsidiary provides an overall actuarial point estimate of the loss reserve for that subsidiary. The overall actuarial point estimate is compared to the subsidiary's carried loss reserve. If the carried reserve can be supported by actuarial methods and assumptions which are also believed to be reasonable, then the carried reserve would generally be considered reasonable and no adjustment would be considered. The ultimate process by which the actual carried reserves are determined considers not only the actuarial point estimate but a myriad of other factors. Other crucial internal and external factors considered include a qualitative assessment of inflation and other economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environments, underlying policy pricing, terms and conditions, and claims handling.

With respect to the 2003 year-end actuarial loss reserve analysis for DBG, the actuaries continued to utilize the modified assumptions which gave additional weight to actual loss development from the more recent years, as identified during the 2002 analysis, with appropriate adjustments to account for the additional year of loss experience which emerged in 2003. Although the actuaries continued to use actuarial assumptions that rely on expected loss ratios based on the results of prior accident years, the expected loss ratio assumptions used gave far greater weight to the more recent accident year experience than was the case in the prior year-end assumptions. No weight was given to the more favorable experience of accident years prior to 1997. Additionally, the actuaries modified their loss cost trend assumptions to reflect the emerging experience from the recent accident years. For example, in setting the expected loss ratios for accident years 2001, 2002 and 2003 for the excess casualty lead umbrella class, the actuaries gave 100 percent weight to the results of the 1997 through 2000 accident years only, giving no weight to the more favorable development of accident years prior to 1997. In addition, they continued to utilize the 7.5 percent annual loss cost trend factor.

Loss development trends for long tail lines such as Excess Casualty and D&O, however, have not followed any consistent trend. This has at times led to overstated loss ratio projections and is a key reason why the actuaries have customarily utilized the historical projection method, which gave more weight to the experience of older, more mature accident years. For long tail lines, judgment is required in analyzing the appropriate weighting of current trends to avoid overreacting to data anomalies that may distort such current trends. Given the accuracy of the historical approach and the uncertainty of the more recent trends, AIG management decided to give approximately equal weight to the point estimate of the required reserve resulting from the historical

assumptions and the point estimate of the required reserve from the modified assumptions described above in determining the actual loss reserve carried at year-end 2003.

AIG does not believe disclosure of specific point estimates calculated by the actuaries would be meaningful. As described more fully below, considerable judgment is required in evaluating loss trends and developments for all classes of business, particularly long tailed lines. Any one actuarial point estimate is based on a particular series of judgments and assumptions of the actuary. Another actuary may give different weights or make different assumptions, and therefore reach a different point estimate. So long as the series of judgments and assumptions are reasonable, no one such point estimate is necessarily a better estimate than another point estimate. Point estimates are used to independently re-affirm the reasonableness of the overall carried reserves. Thus, provided the actuaries confirm the overall reasonableness of AIG's loss and loss expense liabilities, AIG believes that disclosure of such point estimates would not be helpful and in fact could potentially be misleading. Nevertheless, in the interest of comprehensive disclosure, but taking into consideration the reservations AIG management has expressed with respect to the meaningfulness of disclosure of point estimates, the actual loss reserve carried at year-end 2003 for AIG's overall General Insurance business was approximately 4 percent greater than the aggregate reserve indicated by the actuarial point estimates, including the historical assumptions as described above and was approximately 2 percent less than the aggregate reserve indicated by the actuarial point estimates utilizing the modified assumptions.

AIG's annual loss reserve does not calculate a range of loss reserve estimates. Because AIG's General Insurance business is primarily in long tail casualty lines driven almost entirely by severity rather than frequency of claims, developing a range around loss reserve estimates would not be meaningful. An estimate is calculated which AIG's actuaries believe provides a reasonable estimate of the required reserve. This amount is evaluated against actual carried reserves.

There is a potential for significant variation in the developing loss reserves, particularly for long tail classes of business such as excess casualty, when actual costs differ from the assumptions used to test the reserves. For the excess casualty class of business, a 5 percent change in the assumed loss cost trend from each accident year to the next would cause approximately a \$400 million impact (either positively or negatively) to the net loss and loss expense reserve for this business. For the D&O and related management liability classes of business, a 5 percent change in the assumed loss cost trend would also cause approximately a \$400 million impact (either positively or negatively) to the net loss and loss expense reserve for such business. For healthcare liability business, including hospitals and other healthcare exposures, the 5 percent change in the assumed loss cost trend would cause approximately a \$100 million impact (either positively or negatively) to the loss and loss expense reserve for this business. Actual loss cost trends in the early 1990's were negative for these classes, whereas in the late 1990's loss costs trends ran well into the double digits for each of these three classes. The sharp increase in loss costs in the late 1990's was thus much greater than the 5 percent changes cited above, and caused significant increases in the overall loss reserve needs for these classes. While changes in the loss cost trend assumptions can result in a significant impact on the reserve needs for other smaller classes of liability business, the potential impact of these changes on AIG's overall carried reserves would be much less than for the classes noted above.

For the excess casualty class, if future loss development factors differed by 5 percent from those utilized in the year-end 2003 loss reserve review, there would be approximately a \$400 million impact on the overall AIG loss reserve position. The comparable impact on the D&O and related management liability classes would be approximately \$200 million if future loss development factors differed by 5 percent from those utilized in the year-end 2003 loss reserve review. For healthcare liability classes, the impact would be approximately \$100 million. For workers' compensation reserves, the impact of a 5 percent deviation from the loss development factors utilized in the year-end 2003 reserve reviews would be approximately \$600 million (either positively or negatively). Because loss development factors for this class have shown less volatility than higher severity classes such as excess casualty, however, actual changes in loss development factors are expected to be less than 5 percent. There is some degree of volatility in loss development patterns for other longer tail liability classes as well. However, the potential impact on AIG's reserves would be much less than for the classes cited above.

AIG management believes that using a 5 percent change in the assumptions for loss cost trends and loss development factors provides a reasonable estimate of the impact on the reserves of a common or normal potential deviation for AIG's most significant lines of general insurance business. For excess casualty business, both the loss cost trend and the loss development factor assumptions are critical. 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, 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 impacted by changes in the loss cost trends or loss development factors that were initially relied upon 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

phenomena impacting claims. For example, during the lengthy periods during which losses develop for excess casualty, actual changes in loss costs from one accident year to the next have ranged from negative values to double-digit amounts. Thus the 5 percent sensitivity indicator is considered an appropriate estimate of a common or normal deviation for excess casualty. Likewise, in the judgment of AIG's actuaries, an annual 5 percent potential deviation in loss development factors is reasonable based upon historical development.

For D&O and related management liability classes of business, the loss cost trend assumption is critical. The loss development factor assumption is important but less critical than for excess casualty. As this coverage is written on a claims made basis, claims for a given accident year are all reported within that year. Therefore, the potential for significantly unusual loss development patterns generally exists only for several years. Actual changes in loss costs from one accident year to the next in the 1990s ranged from negative values to double-digit amounts. Thus the 5 percent sensitivity indicator is a reasonable estimate of a common or normal potential deviation. A 5 percent deviation in loss development factors is also considered reasonable for these classes. However, as noted above, the dollar impact of such a deviation is less than that of a similar deviation in loss cost trends.

For healthcare liability classes, both the loss cost trend and the loss development factor assumptions are critical. The nature of the potential volatility would be analogous to that described above for the excess casualty business. However, AIG's volume of business in the healthcare classes is much smaller than for excess casualty, hence the potential dollar impact on AIG's overall reserves is smaller for these classes than for excess casualty. AIG's healthcare liability business includes both primary and excess exposures.

For workers' compensation, the loss development factor assumptions are important. Generally, AIG's actual historical workers' compensation loss development would be expected to provide a reasonably accurate predictor of future loss development. A 5 percent sensitivity indicator for workers' compensation would thus be considered to be toward the high end of potential deviations for this class of business. AIG's workers' compensation reserves include a small portion relating to excess workers' compensation coverage. The analysis applicable to excess casualty would apply to these reserves. However, the volume of such business is de minimis compared to that for excess casualty. The loss cost trend assumption for workers' compensation is not believed to be material with respect to AIG's loss reserves other than for that portion representing excess workers' compensation. This is primarily because AIG's actuaries are generally 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 workers' compensation business.

For casualty business other than the classes noted above, there is generally some potential for deviation in both the loss cost trend and loss development factor selections. However, the impact of such deviations would not be material when compared to the impact cited above for excess casualty and directors and officers' liability.

Asbestos and Environmental Reserves

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages 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. However, AIG currently underwrites environmental impairment liability insurance on a claims made basis and has excluded such claims 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 reserves. 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 basis.

Estimation of asbestos and environmental claims loss reserves is a complex process. These asbestos and environmental claims cannot be estimated by AIG using conventional reserving techniques as previously described. Significant factors which affect the trends that influence the asbestos and environmental claims estimation process are the inconsistent 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 exposure 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.

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 is 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 issues. AIG and other industry members will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues.

Although the estimated liabilities with respect to asbestos and environmental reserves are subject to a significantly

greater margin of error than for other loss reserves, the asbestos and environmental reserves carried at the balance sheet date are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. However, if the asbestos and environmental reserves develop deficiently, such deficiency would have an adverse impact on future results of operations. (See the previous discussion on reinsurance collectibility herein.) AIG does not discount its asbestos and environmental reserves.

With respect to known asbestos and environmental claims, AIG established over a decade 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 comprehensive ground up approach on a claim-by-claim basis. The asbestos and environmental claims are reserved to ultimate probable loss based upon known facts, current law, jurisdiction, policy language and other factors. 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 settlement with respect to these claims thereby reducing its exposure to the unpredictable development of these claims.

With respect to asbestos claims reserves, AIG has resolved all claims with respect to miners and major manufacturers (Tier 1), and payments have been completed or reserves are established to cover future payment obligations. Asbestos claims with respect to products containing asbestos (Tier 2), are generally very mature losses, and have been appropriately recognized and reserved by AIG's asbestos claims operation. AIG believes that the vast majority of the incoming claims with respect to products containing small amounts of asbestos, companies in the distribution chain and parties with remote, ill-defined involvement with asbestos (Tier 3 and 4), should not impact its coverage. This is due to a combination of factors, including peripheral companies increasingly being named in asbestos litigation, smaller limits issued to peripheral defendants, tenuous liability cases against peripheral defendants, attachment points of the excess policies, and the manner in which resolution of these weaker cases would be allocated among all insurers, including non-AIG companies, over a long period of time.

AIG believes the majority of its known long tail environmental exposures have been resolved utilizing a combination of pro-active claim-handling techniques including policy buybacks, complete environmental releases, compromise settlements, and, where indicated, litigation. Current and new claims are generally cases of declining severity. Strong coverage defenses (including late notice) and stronger liability defenses are among the factors contributing to declining severity.

In order to test the overall reasonableness of the asbestos and environmental reserves established using the ground up approach, AIG uses primarily two methods, the market share method and the frequency/ severity method. The market share method produces indicated asbestos and environmental reserves needs by applying the appropriate AIG company market share to estimated potential industry ultimate loss and loss expenses based on the latest estimates from A.M. Best and Tillinghast.

The second method, the frequency/ severity approach, utilizes current information as the basis of an analysis that predicts for each of the next ten years a number with respect to future expected environmental claims and the average severity of each. The estimated trend in frequency is based upon assumptions judged by AIG to be the most reasonable. The trend in severity starts with severities based on current actual average severity using the varying case adequacy assumptions and trending forward under assumptions deemed most reasonable by AIG. A similar frequency/ severity analysis is also performed for asbestos. However, future asbestos claims (IBNR) are projected for each of the next twenty years.

AIG's net carried asbestos and environmental reserves are approximately \$25 million greater than the mean indication of the reserves calculated using the market share method, and approximately \$50 million less than the median indication of the reserves calculated using the frequency/ severity approach to test the reserves. Thus, based on these alternative tests, AIG deems its carried reserves to be reasonable as of December 31, 2003.

Quantitative techniques frequently have to be supplemented by subjective consideration, including managerial judgment, to assure management satisfaction that the overall reserves are adequate to meet projected losses.

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined for the nine months ended September 30, 2004 and 2003 follows:

(in millions)	2004		2003	
	Gross	Net	Gross	Net
Asbestos:				
Reserve for losses and loss expenses at beginning of year	\$ 1,235	\$ 386	\$ 1,304	\$ 400
Losses and loss expenses incurred*	222	75	163	54
Losses and loss expenses paid*	(228)	(82)	(224)	(55)
Reserve for losses and loss expenses at end of period	\$ 1,229	\$ 379	\$ 1,243	\$ 399
Environmental:				
Reserve for losses and loss expenses at beginning of year	\$ 789	\$ 283	\$ 832	\$ 296
Losses and loss expenses incurred*	68	21	131	30
Losses and loss expenses paid*	(107)	(48)	(92)	(35)
Reserve for losses and loss expenses at end of period	\$ 750	\$ 256	\$ 871	\$ 291
Combined:				
Reserve for losses and loss expenses at beginning of year	\$ 2,024	\$ 669	\$ 2,136	\$ 696
Losses and loss expenses incurred*	290	96	294	84
Losses and loss expenses paid*	(335)	(130)	(316)	(90)
Reserve for losses and loss expenses at end of period	\$ 1,979	\$ 635	\$ 2,114	\$ 690

* All amounts pertain to policies underwritten in prior years.

The gross and net IBNR included in the reserve for losses and loss expenses at September 30, 2004 and December 31, 2003 were estimated as follows:

(in millions)	2004		2003	
	Gross	Net	Gross	Net
Combined	\$ 1,099	\$ 298	\$ 1,042	\$ 280

A summary of asbestos and environmental claims count activity for the nine months ended September 30, 2004 and 2003 was as follows:

	2004			2003		
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	7,474	8,852	16,326	7,085	8,995	16,080
Claims during year:						
Opened	681	2,146	2,827	335	944	1,279
Settled	(84)	(226)	(310)	(62)	(119)	(181)
Dismissed or otherwise resolved	(461)	(2,121)	(2,582)	(119)	(1,146)	(1,265)
Claims at end of period	7,610	8,651	16,261	7,239	8,674	15,913

A.M. Best, an insurance rating agency, has developed a survival ratio to measure the number of years it would take a company to exhaust both its asbestos and environmental reserves for losses and loss expenses based on that company's current level of asbestos and environmental claims payments. This is a ratio derived by taking the current ending losses and loss expense reserves and dividing by the average annual payments for the prior three years. Therefore, the ratio derived is a simplistic measure of an estimate of the number of years

it would be before the current ending losses and loss expense reserves would be paid off using recent average payments. The higher the ratio, the more years the reserves for losses and loss expenses cover these claims payments. These ratios are computed based on the ending reserves for losses and loss expenses over the respective claims settlement during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted, however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments made and the resultant ratio.

AIG believes that voluntary payments with respect to environmental claims should be excluded from the calculation of the survival ratio for the environmental claims. That is, involuntary payments are primarily attributable to court judgments, court orders, covered claims with no coverage defenses, state mandated clean up costs, claims where AIG's coverage defenses are minimal and settlements that are made less than six months before the first trial setting. Payments other than these are deemed voluntary because AIG can control the amount and timing of such payments, if any.

AIG's survival ratios for asbestos and environmental claims, separately and combined, excluding voluntary environmental claim payments, were based upon a three year average payment. These ratios at September 30, 2004 and 2003 were as follows:

	Gross	Net
2004		
Survival ratios:		
Asbestos	4.9	4.6
Environmental	17.5	12.3
Combined	8.6	7.6
2003		
Survival ratios:		
Asbestos	4.4	4.4
Environmental	16.4	11.8
Combined	7.7	7.1

Life Insurance & Retirement Services Operations

AIG's Life Insurance & Retirement Services subsidiaries offer a wide range of traditional insurance and financial and investment products both domestically and abroad. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of fixed and variable annuities and pensions. (See also Note 2 of Notes to Financial Statements.)

Domestically, AIG's Life Insurance & Retirement Services operations offer a broad range of protection products, including life insurance, group life and health products and payout annuities which include single premium immediate annuities, structured settlements and terminal funding annuities. Home service operations include an array of traditional insurance and investment type products sold through agents. In addition, Home service includes a small block of run-off property and casualty coverage. Retirement services include group retirement products, individual fixed and variable annuity operations and annuity run-off operations which include fixed and variable annuities largely sold through merger related discontinued distribution relationships. AIG's principal domestic Life Insurance & Retirement Services operations include AIG American General Life Companies, AIG Annuity Insurance Company (AIG Annuity), The Variable Annuity Life Insurance Company (VALIC) and SunAmerica Life Insurance Company.

Overseas, AIG's Life Insurance & Retirement Services operations include traditional products such as whole and term life and endowments, personal accident & health products, group products including pension, life and health, and fixed and variable annuities. AIG operates overseas principally through American Life Insurance Company (ALICO), American International Assurance Company, Limited (AIA), American International Assurance Company, (Bermuda) Limited (AIA(B)), Nan Shan Life Insurance Company, Ltd. (Nan Shan), The Philippine American Life and General Insurance Company (Philam Life), and AIG Star Life Insurance Co., Ltd. (AIG Star Life). AIG added significantly to its presence in Japan with the acquisition of GE Edison Life Insurance Company (now known as AIG Edison Life Insurance Company) (AIG Edison Life), consolidated beginning with the fourth quarter of 2003. ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in Europe, Africa, Latin America, the Caribbean, the Middle East, South Asia, and the Far East, with Japan being the largest territory. AIA operates primarily in China (including Hong Kong), Singapore, Malaysia, Thailand, Korea and India. Nan Shan operates in Taiwan. AIG Star Life operates in Japan.

Life Insurance & Retirement Services operations presented on a major product basis for the nine months ending September 30, 2004 and 2003 were as follows:

<i>(in millions)</i>	2004	2003 ^(a)
GAAP premiums:		
Domestic Life:		
Life insurance	\$ 1,407	\$ 1,314
Home service	612	625
Group life/health	858	765
Payout annuities ^(b)	1,126	1,008
Total	4,003	3,712
Domestic Retirement Services:		
Group retirement products	231	180
Individual fixed annuities	43	35
Individual variable annuities	300	240

Individual annuities-runoff ^(c)	59	61
Total	633	516
Total Domestic	4,636	4,228
Foreign Life:		
Life insurance	11,135	9,437
Personal accident & health	3,171	2,186
Group products ^(d)	1,832	945
Total	16,138	12,568
Foreign Retirement Services:		
Individual fixed annuities	282	174
Individual variable annuities	45	14
Total	327	188
Total Foreign	16,465	12,756
Total GAAP premiums	\$ 21,101	\$ 16,984
Net investment income:		
Domestic Life:		
Life insurance	\$ 1,094	\$ 966
Home service	528	511
Group life/health	92	87
Payout annuities	600	511
Total	2,314	2,075
Domestic Retirement Services:		
Group retirement products	1,617	1,522
Individual fixed annuities	2,267	1,837
Individual variable annuities	180	172
Individual annuities-runoff ^(c)	807	971
Total	4,871	4,502
Total Domestic	7,185	6,577

<i>(in millions)</i>	2004	2003 ^(a)
Foreign Life:		
Life insurance	3,248	2,779
Personal accident & health	133	119
Group products	311	249
Intercompany adjustments	(13)	(10)
Total	3,679	3,137
Foreign Retirement Services:		
Individual fixed annuities	700	231
Individual variable annuities	78	1
Total	778	232
Total Foreign	4,457	3,369
Total net investment income ^(e)	\$ 11,642	\$ 9,946
Realized capital gains (losses) ^(e)	(106)	(657)
Total operating income ^(f)	\$ 6,302	\$ 4,659
Life insurance in-force ^(g):		
Domestic	\$ 726,992	\$ 645,606
Foreign	989,279	951,020
Total	\$ 1,716,271	\$ 1,596,626

(a) Restated to conform to 2004 presentation.

(b) Includes structured settlements, single premium immediate annuities and terminal funding annuities.

(c) Represents runoff annuity business sold through merger related discontinued distribution relationships.

(d) 2004 includes approximately \$640 million of premium from a reinsurance transaction involving terminal funding business. This single premium amount is offset by a similar increase of benefit reserves.

(e) For purposes of this presentation, investment income reflects certain amounts of realized capital gains where the gains are deemed to be an inherent element in pricing certain life products in some foreign countries.

(f) 2004 includes \$5 million of catastrophe losses relating to minor Home service property and casualty subsidiaries currently in runoff.

(g) Amounts presented were as at September 30, 2004 and December 31, 2003.

Life Insurance & Retirement Services Results

The increase in Life Insurance & Retirement Services operating income in the first nine months of 2004 when compared to the same period of 2003 was caused in part by strong growth, particularly overseas, and the decline in realized capital losses relative to the same period of 2003.

The contribution of Life Insurance & Retirement Services operating income to AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change amounted to 49.9 percent in the first nine months of 2004 compared to 47.3 percent in the same period of 2003.

Life GAAP premiums grew in the first nine months of 2004 when compared with the same period in 2003. AIG's domestic life operations had strong universal and term life sales and good performance from the independent distribution segment. Payout annuities also had strong growth. The domestic group business is below AIG's growth standards largely because several accounts where pricing was unacceptable were not renewed. AIG is reviewing growth strategies for this business. At American General Life and Accident Insurance Company (AGLA), the home services business, a number of the initiatives taken in recent months to accelerate growth, such as introducing new

products, hiring new agents and retraining existing agents, will take some time before the results are evident. However, the business is solidly profitable with strong cash flow.

Domestic Retirement Services had a solid quarter. The businesses most correlated to the equity markets performed well, with the strongest sales growth in the individual variable annuity segment. VALIC, the group retirement services business, which has approximately half of client assets in equities, also benefited from improved equity market performance. VALIC has had a successful start cross-selling individual variable annuities, fixed annuities and mutual funds. AIG Annuity, the individual fixed annuity business, had very good performance with stable spreads and growth in operating income, even as consumers shifted assets to equity-based products.

With respect to Foreign Life, the majority of the growth in GAAP Life Insurance & Retirement Services premiums was attributable to the Life insurance, Personal accident & health, and Group products lines of business. This growth was most significant in Southeast Asia where AIG maintains significant market share established by its strong agency force, and in Japan, where AIG is benefiting from a flight to quality. Also in Japan, AIG Edison Life is being integrated successfully into AIG's life operations. AIG Star Life is growing first year premiums as a result of new product introductions and an expanded agency force, and is benefiting from more successful conservation of in-force business. The annuity business in Japan is growing rapidly through product innovation and packaging skills and the confidence engendered by the financial strength of AIG companies. In China, Life Insurance first year premiums are growing significantly. Additionally, personal accident sales reflect the repricing of certain key products to improve profit margins and is included in the Personal accident & health line of business. In addition, AIG's deep and diverse distribution, which includes bancassurance, worksite marketing, direct marketing and strong agency organizations, provides a powerful platform for growth. Foreign Life Insurance & Retirement Services operations produced 78.0 percent and 75.1 percent of GAAP Life Insurance & Retirement Services premiums in 2004 and 2003, respectively.

As previously discussed, the U.S. dollar weakened in relation to most major foreign currencies in which AIG transacts business. Accordingly, for the first nine months of 2004, when foreign life GAAP premiums were translated into U.S. dollars for purposes of the preparation of the consolidated financial statements, total life GAAP premiums were approximately 4.5 percentage points more than they would have been if translated utilizing exchange rates prevailing in 2003.

Under U.S. GAAP, deposits and certain other considerations received under deferred annuity (variable and fixed) and universal life contracts are not included as GAAP premiums. If such amounts were to be included, the overall year to date growth from 2004 over 2003 would be more dramatic, due in part to large increases in foreign individual fixed annuities.

The growth in net investment income in the first nine months of 2004 when compared to the same period of 2003 was attributable to both foreign and domestic invested new cash flow for investment. Additionally, net investment income was positively impacted by the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

Life Insurance & Retirement Services investment portfolios are managed within the overall objectives of the Life Insurance & Retirement Services operations. The decline in the realized capital losses in the first nine months of 2004 reflect an improved economy, stronger corporate balance sheets and a significantly lower level of impairments. The realized capital losses in the first nine months of 2003 reflect impairment loss provisions for certain equity and fixed income holdings. (See also the discussion on "Valuation of Invested Assets" herein.)

Underwriting and Investment Risk

The risks associated with the traditional life and accident and health products are underwriting risk and investment risk. The risk associated with the financial and investment contract products is primarily investment risk.

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. The emergence of significant adverse experience would require an adjustment to the benefit reserves that could have a substantial impact with respect to AIG's results of operations.

AIG's foreign life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately \$1.5 million of coverage and AIG's domestic life companies generally limit their maximum underwriting exposure on traditional life insurance of a single life to \$2.5 million of coverage by using yearly renewable term reinsurance. (See also the discussion under "Liquidity" herein.)

The investment risk represents the exposure to loss resulting from the cash flows from the invested assets, primarily long-term fixed rate investments, being less than the cash flows required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments. (See also the discussion under "Liquidity" herein.)

To minimize its exposure to investment risk, AIG tests the cash flows from the invested assets and the policy and contract liabilities using various interest rate scenarios to assess whether there is a liquidity excess or deficit. If a rebalancing of the invested assets to the policy and contract claims became necessary and did not occur, a demand could be placed upon liquidity. (See also the discussion under "Liquidity" herein.)

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of the related policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the initial investments may be at a yield below that of the interest required for the accretion of the policy liabilities. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. (See also the discussion under "Liquidity" herein.)

Certain foreign jurisdictions have limited long-dated bond markets and AIG may use alternative investments, including equities and foreign denominated fixed income instruments to extend the effective duration of the investment portfolio to more closely match that of the policyholder liabilities.

The asset-liability relationship is appropriately managed in AIG's domestic operations, as there is ample supply of qualified long-term investments.

AIG uses asset-liability matching as a management tool worldwide to determine the composition of the invested assets and appropriate marketing strategies. As a part of these strategies, AIG may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes.

A number of guaranteed benefits are offered on certain variable life products. (For further discussion see Note 7 of Notes to Financial Statements.)

DAC for life insurance products arises from the deferral of those costs that vary with, and are directly related to, the acquisition of new or renewal business. Policy acquisition costs for traditional life insurance products are generally deferred and amortized over the premium paying period of the policy. Policy acquisition costs which relate to universal life and investment-type products, including fixed annuities, (nontraditional life products) are deferred and amortized, with interest, as appropriate, in relation to the historical and future incidence of estimated gross profits to be realized over the estimated lives of the contracts. With respect to variable annuities, AIG's policy, as appropriate, has been to adjust amortization assumptions for DAC when estimates of current or future gross profits to be realized from these contracts are revised. With respect to variable annuities sold domestically (representing the vast majority of AIG's variable annuity business), the assumption for the long-term annual net growth rate of the equity markets used in the determination of DAC amortization is approximately 10 percent. A methodology referred to as "reversion to the mean" is used to maintain this long-term net growth rate assumption, while giving consideration to short-term variations in equity markets. Estimated gross profits include investment income and gains and losses on investments less interest required as well as other charges in the contract less actual mortality and expenses. Current experience and changes in the expected future gross profits are analyzed to determine the impact on the amortization of DAC. The estimation of projected gross profits requires significant management judgment. The elements with respect to the current and projected gross profits are reviewed and analyzed quarterly and are appropriately adjusted.

AIG's variable annuity earnings will be affected by changes in market returns because separate account revenues, primarily composed of mortality and expense charges and asset management fees, are a function of asset values.

DAC for both traditional life and nontraditional life products as well as retirement services products are subject to review for recoverability, which involve estimating the future profitability of current business. This review also involves significant management judgment. If the actual emergence of future profitability were to be substantially different than that estimated, AIG's results of operations could be significantly impacted.

Insurance and Asset Management Invested Assets

AIG's general strategy is to invest in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. With respect to General Insurance, AIG's strategy is to invest in longer duration fixed maturities to maximize the yields at the date of purchase. With respect to Life Insurance & Retirement Services, AIG's strategy is to produce cash flows required to meet maturing insurance liabilities. (See also the discussion under "Operating Review: Life Insurance & Retirement Services Operations" herein.) AIG invests in equities for various reasons, including diversifying its overall exposure to interest rate risk. Equity securities are subject to declines in fair value. Such declines in fair value are presented in unrealized appreciation or depreciation of investments, net of taxes as a component of other comprehensive income. Generally, insurance regulations restrict the types of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, AIG and its insurance subsidiaries may enter into derivative transactions as end users. (See also the discussion under "Derivatives" herein.)

In certain jurisdictions, significant regulatory and/or foreign governmental barriers exist which may not permit the immediate free flow of funds between insurance subsidiaries or from the insurance subsidiaries to AIG parent. These barriers generally cause only minor delays in the outward remittance of the funds.

The following tables summarize the composition of AIG's insurance and asset management invested assets by segment, at September 30, 2004 and December 31, 2003:

September 30, 2004 (dollars in millions)	General Insurance	Life Insurance & Retirement Services	Asset Management	Total	Percent of Total	Percent Distribution	
						Domestic	Foreign
Fixed Maturities:							
Available for sale, at market value ^(a)	\$ 42,600	\$ 243,190	\$ 46,013	\$ 331,803	69.0%	62.2%	37.8%
Held to maturity, at amortized cost	15,415	—	—	15,415	3.2	100.0	—
Equity securities, at market value ^(b)	5,346	10,495	119	15,960	3.3	31.6	68.4
Mortgage loans on real estate, policy and collateral loans	23	16,170	5,156	21,349	4.5	69.4	30.6
Short-term investments, including time deposits, and cash	2,106	11,662	2,239	16,007	3.3	40.7	59.3
Real estate	557	2,851	324	3,732	0.8	28.9	71.1
Investment income due and accrued	1,006	4,317	508	5,831	1.2	60.2	39.8
Securities lending collateral	4,819	37,478	11,506	53,803	11.2	86.9	13.1
Other invested assets	6,670	5,702	4,549	16,921	3.5	84.9	15.1
Total	\$ 78,542	\$ 331,865	\$ 70,414	\$ 480,821	100.0%	65.3%	34.7%

(a) Includes \$2.40 billion of bond trading securities, at market value.

(b) Includes \$1.91 billion of preferred stocks, at market value.

December 31, 2003 (dollars in millions)	General Insurance	Life Insurance & Retirement Services	Asset Management	Total	Percent of Total	Percent Distribution	
						Domestic	Foreign
Fixed Maturities:							
Available for sale, at market value ^(a)	\$ 41,610	\$ 225,686	\$ 32,453	\$ 299,749	75.2%	64.1%	35.9%
Held to maturity, at amortized cost	8,037	—	—	8,037	2.0	100.0	—
Equity securities, at market value ^(b)	5,130	4,174	60	9,364	2.4	53.7	46.3
Mortgage loans on real estate, policy and collateral loans	25	15,513	5,228	20,766	5.2	68.4	31.6
Short-term investments, including time deposits, and cash	1,918	4,662	2,343	8,923	2.2	53.1	46.9
Real estate	569	2,903	302	3,774	0.9	28.9	71.1
Investment income due and accrued	881	3,597	420	4,898	1.2	62.9	37.1
Securities lending collateral	5,225	20,537	4,433	30,195	7.6	76.0	24.0
Other invested assets	5,121	4,404	3,415	12,940	3.3	85.3	14.7
Total	\$ 68,516	\$ 281,476	\$ 48,654	\$ 398,646	100.0%	65.8%	34.2%

(a) Includes \$282 million of bond trading securities, at market value.

(b) Includes \$1.90 billion of preferred stocks, at market value.

Credit Quality

At September 30, 2004, approximately 64 percent of the fixed maturities investments were domestic securities. Approximately 32 percent of such domestic securities were rated AAA by one or more of the principal rating agencies. Approximately 7 percent were below investment grade or not rated.

A significant portion of the foreign fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At September 30, 2004, approximately 20 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 5 percent were below investment grade or not rated at that date. A large portion of the foreign fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

Any fixed income security may be subject to downgrade for a variety of reasons subsequent to any balance sheet date.

Valuation of Invested Assets

The valuation of invested assets involves obtaining a market value for each security. The source for the market value is generally from market exchanges or dealer quotations, with the exception of nontraded securities.

Another aspect of valuation is an assessment of impairment. As a matter of policy, the determination that a security has incurred an other-than-temporary decline in value and

the amount of any loss recognition requires the judgment of AIG's management and a continual review of its investments.

In general, a security is considered a candidate for impairment if it meets any of the following criteria:

- Trading at a significant discount to par, amortized cost (if lower) or cost for an extended period of time;
- The occurrence of a discrete credit event resulting in (i) the issuer defaulting on a material outstanding obligation; or (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for the court supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or
- In the opinion of AIG's management, it is possible that AIG may not realize a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Once a security has been identified as impaired, the amount of such impairment is determined by reference to that security's contemporaneous market price.

AIG has the ability to hold any security to its stated maturity. Therefore, the decision to sell reflects the judgment of AIG's management that the security sold is unlikely to provide, on a relative value basis, as attractive a return in the future as alternative securities entailing comparable risks. With respect to distressed securities, the sale decision reflects management's judgment that the risk-discounted anticipated ultimate recovery is less than the value achievable on sale.

As a result of these policies, AIG recorded impairment losses, net of taxes, of \$361 million and \$798 million in the first nine months of 2004 and 2003, respectively. The recovery in global equity markets and reasonably steady domestic interest rates were the primary reasons for the decline in impairment loss recognition from 2003 to 2004.

No impairment charge with respect to any one single credit was significant to AIG's consolidated financial condition or results of operations, and no individual impairment loss exceeded 1.0 percent of consolidated net income for the first nine months of 2004.

Excluding the impairments noted above, the changes in market value for AIG's available for sale portfolio, which constitutes the vast majority of AIG's investments, were recorded in accumulated other comprehensive income as unrealized gains or losses.

At September 30, 2004, the aggregate unrealized losses after taxes of the fixed maturity securities were approximately \$1.4 billion. At September 30, 2004, the aggregate unrealized losses after taxes of the equity securities portfolio were approximately \$168 million.

At September 30, 2004, aggregate unrealized gains after taxes were \$10.8 billion and aggregate unrealized losses after taxes were \$1.5 billion. At September 30, 2004, the fair value of AIG's fixed maturities and equity securities aggregated to \$365.1 billion.

The impact on net income of unrealized losses after taxes will be further mitigated upon realization, because certain realized losses will be charged to participating policyholder accounts, and realization will result in current decreases in the amortization of certain deferred acquisition costs.

At September 30, 2004, unrealized losses for fixed maturity securities and equity securities did not reflect any significant industry concentrations.

The amortized cost of fixed maturities available for sale in an unrealized loss position at September 30, 2004, by contractual maturity, is shown below:

<i>(in millions)</i>	Amortized Cost
Due in one year or less	\$ 2,045
Due after one year through five years	12,272
Due after five years through ten years	21,315
Due after ten years	31,737
Total	\$ 67,369

In the nine months ended September 30, 2004, the pretax realized losses incurred with respect to the sale of fixed maturities and equity securities were \$1.2 billion. The aggregate fair value of securities sold was \$28.6 billion, which was approximately 98 percent of amortized cost. The average period of time that securities sold at a loss during the nine months ended September 30, 2004 were trading continuously at a price below book value was approximately four months.



At September 30, 2004, aggregate pretax unrealized gains were \$16.6 billion, while the pretax unrealized losses with respect to investment grade bonds, below investment grade bonds and equity securities were \$1.61 billion, \$500 million and \$258 million, respectively. Aging of the pretax unrealized losses with respect to these securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the market value is less than amortized cost or cost), including the number of respective items, was as follows:

Aging (dollars in millions)	Less than or equal to 20% of Cost ^(a)			Greater than 20% to 50% of Cost ^(a)			Greater than 50% of Cost ^(a)			Total		
	Unrealized Cost ^(a)	Loss	Items	Unrealized Cost ^(a)	Loss	Items	Unrealized Cost ^(a)	Loss	Items	Unrealized Cost ^(a)	Loss ^(b)	Items
Investment grade bonds												
0-6 months	\$ 43,891	\$ 737	2,771	\$ 32	\$ 10	15	\$ —	\$ —	—	\$ 43,923	\$ 747	2,786
7-12 months	6,999	233	579	69	15	20	—	—	—	7,068	248	599
>12 months	10,395	526	787	340	85	12	—	—	—	10,735	611	799
Total	\$ 61,285	\$ 1,496	4,137	\$ 441	\$ 110	47	\$ —	\$ —	—	\$ 61,726	\$ 1,606	4,184
Below investment grade bonds												
0-6 months	\$ 3,081	\$ 97	425	\$ 55	\$ 14	28	\$ 36	\$ 21	20	\$ 3,172	\$ 132	473
7-12 months	830	71	128	92	26	51	13	10	11	935	107	190
>12 months	974	85	115	531	159	99	31	17	14	1,536	261	228
Total	\$ 4,885	\$ 253	668	\$ 678	\$ 199	178	\$ 80	\$ 48	45	\$ 5,643	\$ 500	891
Total bonds												
0-6 months	\$ 46,972	\$ 834	3,196	\$ 87	\$ 24	43	\$ 36	\$ 21	20	\$ 47,095	\$ 879	3,259
7-12 months	7,829	304	707	161	41	71	13	10	11	8,003	355	789
>12 months	11,369	611	902	871	244	111	31	17	14	12,271	872	1,027
Total	\$ 66,170	\$ 1,749	4,805	\$ 1,119	\$ 309	225	\$ 80	\$ 48	45	\$ 67,369	\$ 2,106	5,075
Equity securities												
0-6 months	\$ 2,151	\$ 146	765	\$ 193	\$ 52	142	\$ 23	\$ 18	40	\$ 2,367	\$ 216	947
7-12 months	359	9	73	57	17	266	17	14	25	433	40	364
>12 months	—	—	—	3	1	3	1	1	3	4	2	6
Total	\$ 2,510	\$ 155	838	\$ 253	\$ 70	411	\$ 41	\$ 33	68	\$ 2,804	\$ 258	1,317

(a) For bonds, represents amortized cost.

(b) As more fully described above, upon realization, certain realized losses will be charged to participating policyholder accounts, or realization will result in a current decrease in the amortization of certain deferred acquisition costs.

As stated previously, the valuation for AIG's investment portfolio comes from market exchanges or dealer quotations, with the exception of nontraded securities. AIG considers nontraded securities to mean certain fixed income investments, certain structured securities, direct private equities, limited partnerships and hedge funds. The aggregate carrying value of these securities at September 30, 2004 was approximately \$65.5 billion.

The methodology used to estimate the fair value of nontraded fixed income investments is by reference to traded securities with similar attributes and using a matrix pricing methodology. This technique takes into account such factors as the industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, and other relevant factors. The change in fair value is recognized as a component of other comprehensive income.

For certain structured securities, the carrying value is based on an estimate of the security's future cash flows pursuant to the requirements of Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." The change in carrying value of these assets is recognized in income.

Direct private equities, hedge funds and limited partnerships in which AIG holds in the aggregate less than a five percent interest, are carried at fair value. The change in fair value is recognized as a component of other comprehensive income.

With respect to hedge funds and limited partnerships in which AIG holds in the aggregate a five percent or greater interest, AIG's carrying value is the net asset value. The changes in such net asset values are recorded in Life Insurance & Retirement Services or General Insurance net investment income, as appropriate.

AIG obtains the fair value of its investments in limited partnerships and hedge funds from information provided by the sponsors of each of these investments, the accounts of which are generally audited on an annual basis.

Each of these investment categories is regularly tested to determine if impairment in value exists. Various valuation techniques are used

with respect to each category in this determination.

Financial Services Operations

AIG's Financial Services subsidiaries engage in diversified financial products and services including aircraft leasing, capital market transactions, and consumer and insurance premium financing. (See also Note 2 of Notes to Financial Statements.)

AIG's Aircraft Finance operations represent the operations of International Lease Finance Corporation (ILFC), which generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions.

ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing rates at the end of the first nine months of 2004 and 2003 were 4.20 percent and 4.63 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note 2 of Notes to Financial Statements.)

ILFC is exposed to operating loss and liquidity strain through nonperformance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and, in part, through committing to purchase aircraft which it would be unable to lease.

ILFC manages its lessee nonperformance exposure through credit reviews and security deposit requirements. As a result of these measures and its own contingency planning, ILFC did not suffer any material losses from airline shutdowns in the aftermath of the September 11 terrorist attacks, but there can be no assurance that ILFC will successfully manage the risks relating to the impact of possible future deterioration in the airline industry. Over 80 percent of ILFC's fleet is leased to non-U.S. carriers, and this fleet, comprised of the most efficient aircraft in the airline industry, continues to be in high demand from such carriers.

ILFC typically contracts to re-lease aircraft before the end of the existing lease term. For aircraft returned before the end of the lease term, ILFC has generally been able to re-lease such aircraft within two to six months of its return. While some of the lease rates for aircraft that have been redeployed are lower, the impact of these reduced revenues is partially offset by low interest rates, which reduce ILFC's financing costs. As a lessor, ILFC considers an aircraft "idle" or "off lease" when the aircraft is not subject to a signed lease agreement or signed letter of intent. At September 30, 2004, there were two aircraft off lease. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

During 2004, ILFC entered into a securitization of a portfolio of 34 aircraft. Certain of AIG's Life Insurance & Retirement Services businesses purchased a large share of this securitization.

ILFC management is very active in the airline industry. Management formally reviews regularly, and no less frequently than quarterly, issues affecting ILFC's fleet, including events and circumstances that may cause impairment of aircraft values. Management evaluates aircraft in the fleet as necessary, based on these events and circumstances in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). ILFC has not recognized any impairment related to its fleet, as the existing service potential of the aircraft in ILFC's portfolio has not been diminished. Further, ILFC has been able to re-lease the aircraft without diminution in lease rates to an extent that would require an impairment write-down. (See also the discussions under "Liquidity" herein.)

In the third quarter of 2003, AIG integrated the operations of AIG Trading Group Inc. and its subsidiaries (AIGTG) with AIG Financial Products Corp. and its subsidiaries (AIGFP) thereby establishing the Capital Markets operating and reporting unit. AIG believes that this will result in greater efficiencies and product synergies as well as growth opportunities. As Capital Markets is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance.

AIG's Capital Markets operations derive substantially all their revenues from hedged proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. These subsidiaries participate in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity, commodity and credit derivative products business.

As dealers, AIGFP and AIGTG mark transactions to fair value daily. Thus, a gain or loss on each transaction is recognized daily. AIGFP and AIGTG hedge the market risks arising from their transactions. Therefore, revenues and operating income are not significantly exposed to or affected by market fluctuations and volatility. Revenues of the Capital Markets operations and the percentage change in revenues for any given period are significantly affected by the number and size of transactions entered into by these subsidiaries during that period relative to those entered into during the prior period. Operating income and the percentage change in operating income for any period are determined by the number, size and profitability of the transactions attributable to that period relative to those attributable to the prior period. Generally, the realization of trading revenues as measured by the receipt of funds is not a significant reporting event as the gain or loss on Capital Markets trading transactions are currently reflected in operating income as the fair values change from period to period.

Derivative transactions are entered into in the ordinary course of Capital Markets operations. Therefore, income on interest rate, currency, equity, commodity and credit deriva-

tives along with their related hedges are recorded on a mark to market value or at estimated fair value where market prices are not readily available with the resulting unrealized gains or losses reflected in the income statement in the current year. In the first nine months of 2004, less than five percent of revenues resulted from transactions valued at estimated fair value. The mark to fair value of derivative transactions is reflected in the balance sheet in the captions "Unrealized gain on interest rate and currency swaps, options and forward transactions" and "Unrealized loss on interest rate and currency swaps, options and forward transactions." Pursuant to ISDA Master Agreements, unrealized gains represent the present value of the aggregate of each net receivable by counterparty, and unrealized losses represent the present value of the aggregate of each net payable by counterparty as of September 30, 2004. These amounts will change from one period to the next due to changes in interest rates, currency rates, equity prices and other market variables, as well as cash movements, execution of new transactions and the maturing of existing transactions. (See also the discussion under "Derivatives" herein.) Spread income on investments and borrowings are recorded on an accrual basis over the life of the transaction. Investments are classified as securities available for sale and are marked to market with the resulting unrealized gains or losses reflected in shareholders' equity.

Domestically, AIG's Consumer Finance operations derive a substantial portion of their revenues from finance charges assessed on outstanding mortgages, home equity loans, secured and unsecured consumer loans and retail merchant financing. Credit quality continues to be strong and receivables grew substantially. Overseas operations provide credit cards, personal and auto loans, term deposits, savings accounts, sales finance and mortgages with an emphasis on emerging markets.

Consumer Finance operations are exposed to loss when contractual payments are not received. Collection exposure is managed through the mix of tight underwriting controls, mix of loans and collateral thereon.

Financial Services operations for the nine months ending September 30, 2004 and 2003 were as follows:

<i>(in millions)</i>	2004	2003
Revenues:		
Aircraft Finance ^(a)	\$ 2,404	\$ 2,272
Capital Markets ^(b)	1,161	1,242
Consumer Finance ^(c)	2,178	1,957
Other	25	24
Total	\$ 5,768	\$ 5,495
Operating income:		
Aircraft Finance	\$ 547	\$ 548
Capital Markets	664	729
Consumer Finance	579	489
Other, including intercompany adjustments	(2)	(4)
Total	\$ 1,788	\$ 1,762

(a) Revenues were primarily from ILFC aircraft lease rentals.

(b) Revenues were primarily from AIGFP and AIGTG hedged proprietary positions entered into in connection with counterparty transactions.

(c) Revenues were primarily finance charges.

Financial Services Results

Financial Services operating income increased in the first nine months of 2004 compared to the same period of 2003. The increase occurred because of the growth in Consumer Finance operating income, despite the impact of ILFC's disposition of approximately \$2 billion in aircraft through securitizations in the third quarter of 2003 and first quarter of 2004 and the reduced income from Capital Markets operations. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations.

Financial Services operating income represented 14.1 percent of AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change in the first nine months of 2004. This compares to 17.9 percent in the same period of 2003.

With respect to ILFC, the revenue growth in the first nine months of 2004 resulted primarily from the increase in flight equipment under operating lease and the increase in the relative value of the leased fleet.

The composition by percentage contribution of revenues and operating income for Capital Markets operations in the first nine months of 2004 and 2003 is set forth below. The percentages for operating income are the same as those for revenues because expenses are allocated across all products in proportion to the revenues generated by that product. Material changes in the distribution of revenues and operating income from period to period are not unusual due to the transactional nature of the Capital Markets business.

	2004	2003
Spread income on investments and borrowings	47%	33%
Interest rate and currency products	29	38
Equity linked products	5	3
Credit linked products	13	22
Commodity and commodity linked products and other revenue	6	4

Financial market conditions in the first nine months of 2004 compared with the first nine months of 2003 were characterized by interest rates which were broadly unchanged across fixed income markets globally, a tightening of credit spreads, and higher equity valuations. Capital Markets results in 2004 compared with 2003 reflected a shift in product segment activity to respond to these conditions.

The most significant component of Capital Markets operating expenses is compensation, which approximated 34 percent and 33 percent of revenues in the first nine months of 2004 and 2003, respectively.

Consumer Finance revenues in the first nine months of 2004 increased. The increase in revenues in the first nine months of 2004 was the result of growth in average finance receivables and credit quality continues to be strong. Foreign Consumer Finance operations performed very well as the operations in Poland continued its strong growth and the Hong Kong credit card business benefited from the strengthening local economy.

Financial Services Invested Assets

The following table is a summary of the composition of AIG's Financial Services invested assets at September 30, 2004 and December 31, 2003. (See also the discussions under "Operating Review: Financial Services Operations," "Capital Resources" and "Derivatives" herein.)

	2004		2003	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
<i>(dollars in millions)</i>				
Flight equipment primarily under operating leases, net of accumulated depreciation	\$ 32,180	22.7%	\$ 30,343	24.6%
Finance receivables, net of allowance	21,531	15.2	17,609	14.3
Unrealized gain on interest rate and currency swaps, options and forward transactions	20,793	14.7	21,599	17.5
Securities available for sale, at market value	19,630	13.8	15,714	12.8
Trading securities, at market value	3,551	2.5	3,300	2.7
Securities purchased under agreements to resell, at contract value	38,352	27.1	28,144	22.9
Trading assets	2,360	1.7	2,548	2.1
Spot commodities, at market value	133	0.1	250	0.2
Other, including short-term investments	3,246	2.2	3,624	2.9
Total	\$ 141,776	100.0%	\$ 123,131	100.0%

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During the first nine months of 2004, ILFC acquired flight equipment costing \$3.93 billion. (See also the discussion under "Operating Review: Financial Services Operations" and "Capital Resources" herein.)

AIG's Consumer Finance operations provide a wide variety of consumer finance products both domestically and overseas. Such products include real estate mortgages, consumer loans, and retail sales finance. These products are funded through various borrowings including commercial paper and medium term notes. AIG's Consumer Finance operations are exposed to credit risk and risk of loss resulting from adverse fluctuations in interest rates. Over half of the loan balance is related to real estate loans which are substantially collateralized by the

related properties.

With respect to credit losses, the allowance for finance receivable losses is maintained at a level considered adequate to absorb anticipated credit losses existing in that portfolio.

Capital Markets derivatives transactions are carried at market value or at estimated fair value when market prices are not readily available. AIGFP reduces its economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. The estimated fair values of these transactions represent assessments of the present value of expected future cash flows. These transactions are exposed to liquidity risk if AIGFP were required to sell or close out the transactions prior to maturity. AIG believes that the impact of any such

event would not be significant to AIG's financial condition or its overall liquidity. (See also the discussion under "Operating Review: Financial Services Operations" and "Derivatives" herein.)

AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities, including securities available for sale, at market, and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. The proceeds from the disposal of the aforementioned securities available for sale and securities purchased under agreements to resell have been used to fund the maturing GIAs or other AIGFP financings. (See also the discussion under "Capital Resources" herein.)

Securities available for sale is predominately a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At September 30, 2004, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with \$199 million of these securities. Securities deemed below investment grade at September 30, 2004, amounted to approximately \$62 million in fair value representing 0.3 percent of the total AIGFP securities available for sale. There have been no significant downgrades through November 1, 2004.

AIGFP's risk management objective is to minimize interest rate, equity and currency risks associated with its securities available for sale. That is, when AIGFP purchases a security for its securities available for sale investment portfolio, it simultaneously enters into an offsetting fair value hedge such that the payment terms of the hedging transaction exactly offset the payment terms of the investment security. As a result of the hedging transaction, the holder of the investment security pays the return on the underlying security and receives overnight USD LIBOR plus or minus a spread based on the underlying profit on each security on the initial trade date. The unrealized gains or losses that inure to the security from movements in interest rates, currency rates, or equity prices and the change in value of the related hedging transaction are recorded in operating income currently. The unrealized gain or loss that relates to the change in the un-hedged risk (credit spreads) with respect to these investments is recorded in shareholders' equity, net of tax. When a security is sold, the related hedging transaction is also terminated. The realized gain or loss with respect to each security and its related hedge are recorded in operating income.

Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

AIGFP is exposed to credit risk. If its securities available for sale portfolio were to suffer significant default and the collateral held declined significantly in value with no replacement or the credit default swap counterparty failed to perform, AIGFP could have a liquidity strain. AIG guarantees AIGFP's payment obligations, including its debt obligations.

AIGTG conducts, as principal, market making and trading activities in foreign exchange, and commodities, primarily precious and base metals. AIGTG owns inventories in the commodities in which it trades and may reduce the exposure to market risk through the use of swaps, forwards, futures and option contracts. AIGTG uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movements of interest rates, foreign currency exchange rates and commodity prices. AIGTG supports its trading activities largely through trading liabilities, unrealized losses on swaps, short-term borrowings, securities sold under agreements to repurchase and securities and commodities sold but not yet purchased. (See also the discussions under "Capital Resources.")

The gross unrealized gains and gross unrealized losses of Capital Markets included in the financial services assets and liabilities at September 30, 2004 were as follows:

<i>(in millions)</i>	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale, at market value	\$ 1,959	\$ 1,951
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions ^(a)	20,793	18,724
Trading assets	684	301
Spot commodities, at market value	-	9
Trading liabilities	-	258
Securities and spot commodities sold but not yet purchased, at market value	-	580

(a) These amounts are also presented as the respective balance sheet amounts.

AIGFP's interest rate and currency risks on securities available for sale, at market, are managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At September 30, 2004, the unrealized gains and losses remaining after the benefit of the offsets were \$50 million and \$42 million, respectively.

Trading securities, at market value, and securities and spot commodities sold but not yet purchased, at market value, are marked to

market daily with the unrealized gain or loss being recognized in income at that time. These trading securities are held to meet the short-term risk management objectives of Capital Markets operations.

The senior management of AIG defines the policies and establishes general operating parameters for Capital Markets operations. AIG's senior management has established various oversight committees to review the various financial market, operational and credit issues of the Capital Markets operations. The senior management of AIGFP reports the results of its operations to and reviews future strategies with AIG's senior management.

AIG actively manages the exposures to limit potential losses, while maximizing the rewards afforded by these business opportunities. In doing so, AIG must continually manage a variety of exposures including credit, market, liquidity, operational and legal risks.

Asset Management Operations

AIG's Asset Management operations offer a variety of investment related services and investment products, including mutual funds' management, investment asset management and the sale of guaranteed investment contracts, also known as funding agreements (GICs). Such services and products are offered to individuals and institutions both domestically and overseas.

AIG's principal Asset Management operations are conducted through AIG SunAmerica and AIG Global Investment Group. AIG SunAmerica sells and manages mutual funds and provides financial services. AIG Global Investment Group manages invested assets on a global basis and third-party institutional, retail and private equity funds, provides securities lending and custodial services and organizes and manages the invested assets of institutional private equity investment funds. Each of these subsidiary operations receives fees for investment products and services provided.

As discussed above, AIG Retirement Services operations are now reported with Life Insurance operations. Therefore, Asset Management operations now represent the results of AIG's asset management and brokerage services operations, mutual fund operations and the foreign and domestic guaranteed investment contract operations.

Asset Management revenues and operating income for the nine months ending September 30, 2004 and 2003 were as follows:

<i>(in millions)</i>	2004	2003
Revenues:		
Guaranteed Investment Contracts	\$ 2,024	\$ 1,854
Institutional Asset Management ^(a)	718	456
Brokerage Services and Mutual Funds	185	148
Total	\$ 2,927	\$ 2,458
Operating income:		
Guaranteed Investment Contracts	\$ 477	\$ 393
Institutional Asset Management ^{(a)/(b)}	338	141
Brokerage Services and Mutual Funds	54	44
Total	\$ 869	\$ 578

(a) Includes AIG Global Investment Group and certain smaller asset management operations.

(b) Includes the results of certain AIG managed private equity and real estate funds consolidated effective December 31, 2003 pursuant to FIN46R, "Consolidation of Variable Interest Entities". For the first nine months of 2004, operating income includes \$147 million of third-party limited partner earnings offset in Minority interest expense.

Asset Management Results

Asset Management operating income increased in the first nine months of 2004 compared to the same period of 2003 as a result of the upturn in worldwide financial markets and a strong global product portfolio. The operating income growth results from fees related to the management of mutual funds and various investment portfolios that are, in great part, contingent upon the growth in the equity markets and customer interest in equity sensitive products. Thus, as equity markets expand and contract, the appetite for private equity investment changes, and the revenues and operating income with respect to the asset management portion of this segment can be expected to be similarly affected. GICs are sold domestically and abroad to both institutions and individuals. These products are written on an opportunistic basis when market conditions are favorable. Thus, revenues, operating income and cash flow attributable to GICs will vary from one reporting period to the next.

Asset Management operating income represented 6.9 percent of AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change in the first nine months of 2004. This compares to 5.9 percent in the same period of 2003.

At September 30, 2004, AIG's third party assets under management, including both retail mutual funds and institutional accounts, approximated \$50 billion and the aggregate GIC reserve was \$52.6 billion.

Other Operations

Other income (deductions) – net includes partnership income generated by the investment of capital held by AIG SunAmerica, AIG's equity in certain minor majority-owned subsidiar-

ies and certain partially owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. Other income (deductions) – net amounted to \$(164) million and \$(377) million in the first nine months of 2004 and 2003, respectively. The improvement in the first nine months of 2004 compared to the same period of 2003 was primarily the result of stronger performance of AIG SunAmerica investments in partnerships. AIG's equity in certain partially owned subsidiaries includes \$74 million in catastrophe losses in 2004.

Capital Resources

At September 30, 2004, AIG had total shareholders' equity of \$78.90 billion and total borrowings of \$90.21 billion. At that date, \$81.29 billion of such borrowings were either not guaranteed by AIG or were AIGFP's matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Borrowings

At September 30, 2004, AIG's net borrowings were \$8.92 billion after reflecting amounts that were matched borrowings under AIGFP's obligations of GIAs and matched notes and bonds payable and amounts not guaranteed by AIG. The following table summarizes borrowings outstanding at September 30, 2004 and December 31, 2003:

<i>(in millions)</i>	2004	2003
AIG's net borrowings	\$ 8,924	\$ 7,650
AIGFP		
GIAs	18,461	15,337
Matched notes and bonds payable	19,575	15,289
Borrowings not guaranteed by AIG	43,249	39,002
Total	\$ 90,209	\$ 77,278

Borrowings issued or guaranteed by AIG and those borrowings not guaranteed by AIG at September 30, 2004 and December 31, 2003 were as follows:

<i>(in millions)</i>	2004	2003
AIG borrowings:		
Medium term notes	\$ 767	\$ 791
Notes and bonds payable	2,976	3,141
Loans and mortgages payable	350	337
Total	4,093	4,269
Borrowings guaranteed by AIG:		
AIGFP		
GIAs	18,461	15,337
Notes and bonds payable	20,146	16,203
Total	38,607	31,540
AIG Funding, Inc. commercial paper	3,165	1,223
AGC Notes and bonds payable	1,095	1,244
Total borrowings issued or guaranteed by AIG	46,960	38,276
Borrowings not guaranteed by AIG:		
ILFC		
Commercial paper	2,468	1,575
Medium term notes	5,746	5,960
Notes and bonds payable ^(a)	15,487	14,431
Loans and mortgages payable ^(b)	64	143

Total	23,765	22,109
AGF		
Commercial paper	3,279	2,877
Medium term notes	12,579	9,714
Notes and bonds payable	1,626	1,739
Total	17,484	14,330
Commercial paper:		
AIG Credit Card Company (Taiwan)	302	250
AIG Finance (Taiwan) Limited	10	13
Total	312	263
Loans and mortgages payable:		
AIGCFG	627	624
AIG Finance (Hong Kong) Limited	53	165
Total	680	789
Other Subsidiaries	726	727
Variable Interest Entity debt:		
ILFC ^(c)	–	464
AIG Global Investment Group	–	6
AIG Capital Partners	145	148
AIG SunAmerica	137	166
Total	282	784
Total borrowings not guaranteed by AIG	43,249	39,002
Total Borrowings	\$ 90,209	\$ 77,278

(a) Includes borrowings under Export Credit Facility of \$1.6 billion.

(b) Capital lease obligations.

(c) Synthetic lease obligations expired in September 2004.

AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The borrowings may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under "Operating Review," "Liquidity" and "Derivatives" herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, helps fulfill the short-term cash requirements of AIG and its subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. The issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors.

ILFC and AGF as well as AIG Credit Card Company (Taiwan) – (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited – (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, have issued commercial paper for the funding of their own operations. At September 30, 2004, AIG did not guarantee the commercial paper of any of its subsidiaries other than Funding. (See also the discussion under "Derivatives" herein.)

AIG and Funding are parties to unsecured syndicated revolving credit facilities (collectively, the Facility) aggregat-

ing \$2.75 billion. The Facility consists of \$1.375 billion in a short-term revolving credit facility, which includes a one-year term out option, and \$1.375 billion in a five year revolving credit facility. The Facility can be used for general corporate purposes and also to provide backup for Funding's commercial paper programs. There are currently no borrowings outstanding under the Facility, nor were any borrowings outstanding as of September 30, 2004.

AGF is a party to unsecured syndicated revolving credit facilities aggregating \$3.25 billion. The facilities consist of \$1.75 billion in a short-term revolving credit facility, which includes a one-year term out option, and \$1.5 billion in a five year revolving credit facility, which support AGF's commercial paper borrowings. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of September 30, 2004. AGF had \$6.6 billion in aggregate principal amount of debt securities registered and available for issuance at September 30, 2004. AGF uses the proceeds from the issuance of notes and bonds for the funding of its finance receivables.

Proceeds from the collection of finance receivables will be used to pay the principal and interest with respect to AGF's debt.

ILFC is a party to unsecured syndicated revolving credit facilities aggregating \$4.2 billion at September 30, 2004. The facilities are used to support ILFC's maturing debt and other obligations and consist of \$3.15 billion in a short-term revolving credit facility and \$1.05 billion in a three year revolving credit facility. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of September 30, 2004. On October 15, 2004, ILFC replaced the \$4.2 billion loan facilities with new loan facilities totaling \$6.0 billion, including a \$2.0 billion five-year tranche and a \$4.0 billion 364-day tranche, with a one-year term out option.

At September 30, 2004, ILFC had increased the aggregate principal amount outstanding of its medium term and long-term notes including \$696 million resulting from foreign exchange translation. ILFC had \$11.08 billion of debt securities registered for public sale at September 30, 2004. As of September 30, 2004, \$8.22 billion of debt securities were issued. In addition, ILFC has a Euro Medium Term Note Program for \$7.0 billion, under which \$4.48 billion in notes were sold through September 30, 2004. ILFC has substantially eliminated the currency exposure arising from foreign currency denominated notes by either hedging the notes through swaps or through the offset provided by operating lease payments. Notes issued under this program are included in Notes and Bonds Payable in the preceding table of borrowings.

ILFC had a \$4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these borrowings depending on the delivery date of the aircraft. At September 30, 2004, ILFC had \$1.6 billion outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. In May 2004, ILFC entered into a similarly structured Export Credit Facility (ECA) for up to a maximum of \$2.64 billion, for Airbus aircraft to be delivered in 2004 and 2005. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a six-month forward-looking calendar, and the interest rate is determined through a bid process. As of September 30, 2004, three aircraft had been financed under the ECA facility. In August 2004, ILFC received a commitment for an Ex-Im Bank comprehensive guarantee in the amount of \$1.68 billion to support the financing of up to 30 new Boeing aircraft. The delivery period initially extends from September 1, 2004 through August 31, 2005, but may be extended to August 31, 2006. Borrowings with respect to these facilities are included in Notes and Bonds Payable in the preceding table of borrowings. During 2003, ILFC entered into various bank financings for a total funded amount of \$1.3 billion. The financings mature through 2009. One tranche of one of the loans totaling \$410 million was issued in Japanese yen and swapped to U.S. dollars.

The proceeds of ILFC's debt financing are primarily used to purchase flight equipment, including progress payments during the construction phase. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. (See also the discussions under "Operating Review" and "Liquidity" herein.)

AIGFP has established a Euro Medium Term Note Program under which an aggregate principal amount of up to \$5.0 billion of notes may be outstanding. As of September 30, 2004, \$6.59 billion of notes had been issued under the program, \$3.80 billion of which were outstanding. Notes issued under this program are included in Notes and Bonds Payable in the preceding table of borrowings.

During the first nine months of 2004, AIG did not issue any medium term notes, and \$24 million of previously issued notes matured or were redeemed. On August 15, 2004, Eurodollar zero coupon notes with a face value of \$189 million matured. At September 30, 2004, AIG had \$140 million in aggregate principal amount of debt securities registered for issuance from time to time. AIG has filed a universal shelf registration statement to sell up to \$5.1 billion of debt securities, preferred and common stock and other securities. AIG has no current plans to issue any equity, equity-linked or capital securities provided for in the registration statement, but intends to continue its customary practice of issuing debt securities from time to time to meet its financing needs and

those of certain of its subsidiaries for general corporate purposes.

On November 9, 2001, AIG received proceeds of approximately \$1 billion from the issuance of Zero Coupon Convertible Senior Debentures Due 2031 with an aggregate principal amount at maturity of approximately \$1.52 billion. Commencing January 1, 2002, the debentures are convertible into shares of AIG common stock at a conversion rate of 6.0627 shares per \$1,000 principal amount of debentures if AIG common stock trades at certain levels for certain time periods. The debentures are callable by AIG on or after November 9, 2006. Also, holders can require AIG to repurchase these debentures once every five years beginning on November 9, 2006.

As of November 2001, AIG guaranteed the notes and bonds of AGC. During 2002, AGC issued \$200 million in notes which matured in March 2003. During the first nine months of 2004, \$149 million of previously issued notes matured.

Preferred stock issued by an AGC subsidiary, American General Capital I, with a liquidation value of \$200 million was redeemed for cash on September 8, 2004.

Shareholders' Equity

AIG's shareholders' equity increased \$7.65 billion during the first nine months of 2004. During the first nine months of 2004, retained earnings increased \$7.50 billion, resulting from net income less dividends. Unrealized appreciation of investments, net of taxes increased \$219 million and the cumulative translation adjustment loss, net of taxes, decreased \$115 million. During the first nine months of 2004, there was a gain of \$185 million, net of taxes, relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under "Operating Review" and "Liquidity" herein and the Consolidated Statement of Comprehensive Income.)

AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities.

Stock Repurchase

During the period January 1, 2004 through November 5, 2004, AIG repurchased in the open market 13,310,200 shares of its common stock. AIG from time to time may buy its common shares in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans.

Dividends from Insurance Subsidiaries

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. With respect to AIG's domestic insurance subsidiaries, specifically the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is 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 materiality thresholds.

With respect to AIG's foreign insurance subsidiaries, the most significant insurance regulatory jurisdictions include Bermuda, Japan, Hong Kong and the Republic of China.

At September 30, 2004, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity, but there can be no assurance that such issues will not arise in the future. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list." (See also the discussion under "Liquidity" herein.)

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. The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At September 30, 2004, the risk-based adjusted surplus of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards. As discussed in Recent Developments above, various regulators have commenced investigations into certain insurance business practices. While such investigations are in their early stages, it is possible that they may result in additional regulation of the insurance industry and AIG cannot predict the ultimate impact that such additional regulation 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.

AIG's operations are negatively impacted 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 assessment cannot re-

sonably be estimated. The guarantee fund assessments net of credits for 2003 were \$77 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different during 2004.

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 a majority of its Life Insurance & Retirement Services business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. 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 impact 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.

Contractual Obligations and Other

Commercial Commitments

The maturity schedule of AIG's contractual obligations at September 30, 2004 was as follows:
(in millions)

	Total Payments	Payments due by Period			
		Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years
Borrowings*	\$ 80,703	\$ 22,490	\$ 16,645	\$ 14,139	\$ 27,429
Aircraft purchase commitments	22,492	1,169	10,740	8,169	2,414
Total	\$ 103,195	\$ 23,659	\$ 27,385	\$ 22,308	\$ 29,843

* Excludes commercial paper and obligations included as debt pursuant to FIN 46R and includes ILFC's capital lease obligations.

The maturity schedule of AIG's other commercial commitments by segment at September 30, 2004 was as follows:

(in millions)

	Total Amounts Committed	Amount of Commitment Expiration			
		Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years
Letters of credit:					
Life Insurance & Retirement Services	\$ 134	\$ 104	\$ —	\$ —	\$ 30
DBG	194	95	99	—	—
Standby letters of credit:					
Capital Markets	1,563	1	17	22	1,523
Guarantees:					
Life Insurance & Retirement Services	2,997	211	2,107	—	679
Asset Management	143	74	48	21	—
Other commercial commitments ^(a) :					
Capital Markets ^(b)	15,932	298	1,676	2,924	11,034
Aircraft Finance ^(c)	1,391	—	531	422	438
Life Insurance & Retirement Services	2,227	240	728	440	819
Asset Management	3,476	3,181	196	6	93
DBG	1,763	—	—	—	1,763
Total	\$ 29,820	\$ 4,204	\$ 5,402	\$ 3,835	\$ 16,379

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- (a) Excludes commitments with respect to pension plans.*
 - (b) Primarily liquidity facilities provided in connection with certain municipal swap transactions.*
 - (c) Primarily in connection with options to acquire aircraft.*

AIG and its subsidiaries do not have any contractual obligations that are subject to “ratings triggers” or financial covenants relating to “ratings triggers” which AIG believes could have a material adverse effect on its financial condition, future operating results or liquidity. “Rating 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. Rating triggers generally relate to events which (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.

Special Purpose Vehicles and Off Balance Sheet Arrangements

AIG uses special purpose vehicles (SPVs) and off balance sheet arrangements in the ordinary course of business. As a result of recent changes in accounting, a number of SPVs and off balance sheet arrangements have been reflected in AIG’s consolidated financial statements. In January 2003, FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (FIN 46). FIN 46 addressed the consolidation and disclosure rules for nonoperating entities that are now defined as Variable Interest Entities (VIEs). In December 2003, FASB issued a revision to Interpretation No. 46 (FIN 46R). In November 2002, FASB issued Interpretation No. 45 “Guarantors’ Accounting And Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others” (FIN 45). For additional information related to AIG’s activities with respect to VIEs and certain guarantees see Note 7 of Notes to Financial Statements and also Note 20 of Notes to Financial Statements in AIG’s December 31, 2003 10-K. Also, for additional disclosure regarding AIG’s commercial commitments (including guarantors), see “Contractual Obligations and Other Commercial Commitments” herein.

AIG has restrictive guidelines with respect to the formation of and investment in SPVs and off balance sheet arrangements.

Liquidity

AIG’s liquidity is primarily derived from the operating cash flows of its General and Life Insurance & Retirement Services operations.

At September 30, 2004, AIG’s consolidated invested assets included \$16.74 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first nine months of 2004 amounted to \$20.43 billion.

Sources of funds considered in meeting the objectives of AIG’s Financial Services operations include guaranteed investment agreements, issuance of long-term and short-term debt, maturities and sales of securities available for sale, securities sold under repurchase agreements, trading liabilities, securities and spot commodities sold but not yet purchased, issuance of equity, and cash provided from such operations. AIG’s strong capital position and superior credit ratings are integral to managing this liquidity, as they enable AIG to raise funds in diverse markets worldwide. (See also the discussion under “Capital Resources” herein.)

Management believes that AIG’s liquid assets, its net cash provided by operations, and access to the capital markets will enable it to meet any foreseeable cash requirements.

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG’s insurance operations generated approximately \$47.4 billion in pretax cash flow during the first nine months of 2004. Cash flow includes periodic premium collections, including policyholders’ contract deposits, cash flows from investment operations and paid loss recoveries less reinsurance premiums, losses, benefits, and acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG’s insurance investment operations generated approximately \$13.2 billion in investment income cash flow during the first nine months of 2004. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses. (See also the discussions under “Operating Review: General Insurance Operations” and “Life Insurance & Retirement Services Operations” herein.)

With respect to General Insurance operations, if paid losses accelerated beyond AIG’s ability to fund such paid losses from current operating cash flows, AIG might need to liquidate a portion of its General Insurance investment portfolio and/or arrange for financing. Potential events causing such a liquidity strain could be the result of several significant catastrophic events occurring in a relatively short period of time. Additional strain on liquidity could occur if the investments sold to fund such paid losses were sold into a depressed market place and/or reinsurance recoverable on such paid losses became uncollectible or collateral supporting such reinsurance recoverable significantly decreased in value. (See also the discussions under “Operating Review: General Insurance Operations” herein.)

With respect to Life Insurance & Retirement Services operations, if a substantial portion of the Life Insurance & Retirement Services operations bond portfolio diminished significantly in value and/or defaulted, AIG might need to liquidate other portions of its Life Insurance & Retirement Services investment portfolio and/or arrange financing. Potential events causing such a liquidity strain could be the

result of economic collapse of a nation or region in which AIG Life Insurance & Retirement Services operations exist, nationalization, terrorist acts or other such economic or political upheaval. (See also the discussions under “Operating Review: Life Insurance & Retirement Services Operations” herein.)

In addition to the combined insurance pretax operating cash flow, AIG’s insurance operations held \$13.77 billion in cash and short-term investments at September 30, 2004. Operating cash flow and the cash and short-term balances held provided AIG’s insurance operations with a significant amount of liquidity.

This liquidity is available, among other things, to purchase predominately high quality and diversified fixed income securities and, to a lesser extent, marketable equity securities, and to provide mortgage loans on real estate, policy loans and collateral loans. This cash flow coupled with proceeds of approximately \$114 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately \$154 billion of fixed income securities and marketable equity securities during the first nine months of 2004.

Managing Market Risk

Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest rates, foreign currencies, equities and commodity prices. AIG has exposures to these risks.

AIG analyzes market risk using various statistical techniques including Value at Risk (VaR). VaR is a summary statistical measure that applies the estimated volatility and correlation of market factors to AIG’s market positions. The output from the VaR calculation is the maximum loss that could occur over a defined period of time given a certain probability.

AIG believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

Insurance

AIG has performed a VaR analysis to estimate the maximum potential loss of fair value for each of AIG’s insurance segments and for each market risk within each insurance segment. In this analysis, financial instrument assets include the domestic and foreign invested assets excluding real estate and investment income due and accrued. Financial instrument liabilities include reserve for losses and loss expenses, reserve for unearned premiums, future policy benefits for life and accident and health insurance contracts and policyholders’ funds.

Due to the nature of each insurance segment, AIG manages the General and Life Insurance & Retirement Services operations separately. As a result, AIG manages separately the invested assets of each. Accordingly, the VaR analysis was separately performed for the General and the Life Insurance & Retirement Services operations.

AIG calculated the VaR with respect to the net fair value of each of AIG’s insurance segments as of September 30, 2004 and December 31, 2003. AIG uses the historical simulation methodology which entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was repriced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The VaR number represents the maximum potential loss incurred by these scenarios with a 95 percent confidence (i.e., only 5 percent of historical scenarios show losses greater than the VaR figure). A one month holding period was assumed in computing the VaR figure.

The following table presents the VaR on a combined basis and of each component of market risk for each of AIG’s insurance segments as of September 30, 2004 and December 31, 2003. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

<i>(in millions)</i>	General Insurance		Life Insurance & Retirement Services	
	2004	2003	2004	2003
Market risk:				
Combined	\$ 1,400	\$ 1,100	\$ 4,488	\$ 3,075
Interest rate	1,485	1,173	4,298	2,967
Currency	114	125	291	257
Equity	735	797	946	758

The following table presents the average, high and low VaRs on a combined basis and of each component of market risk for each of AIG's insurance segments as of September 30, 2004 and December 31, 2003.

(in millions)	2004			2003		
	Average	High	Low	Average	High	Low
General Insurance:						
Market risk:						
Combined	\$ 1,275	\$ 1,497	\$ 1,100	\$ 888	\$ 1,120	\$ 658
Interest rate	1,368	1,591	1,173	732	1,173	411
Currency	104	125	88	94	147	64
Equity	749	797	688	781	935	631
Life Insurance & Retirement Services:						
Market risk:						
Combined	\$ 3,770	\$ 4,488	\$ 3,075	\$ 2,262	\$ 3,419	\$ 1,299
Interest rate	3,601	4,298	2,967	2,207	3,347	1,376
Currency	288	305	257	204	257	166
Equity	849	946	758	762	975	627

Financial Services

AIG generally manages its market exposures within Financial Services by taking offsetting positions. Capital Markets seeks to minimize or set limits for open or uncovered market positions. Credit exposure is managed separately. (See the discussion on the management of credit risk below.)

AIG's Market Risk Management Department provides detailed independent review of AIG's market exposures, particularly those market exposures of the Capital Markets operations. This department determines whether AIG's market risks, as well as those market risks of individual subsidiaries, are within the parameters established by AIG's senior management. Well established market risk management techniques such as sensitivity analysis are used. Additionally, this department verifies that specific market risks of each of certain subsidiaries are managed and hedged by that subsidiary.

ILFC is exposed to market risk and the risk of loss of fair value and possible liquidity strain resulting from adverse fluctuations in interest rates. As of September 30, 2004 and December 31, 2003, AIG statistically measured the loss of fair value through the application of a VaR model. In this analysis, the net fair value of Aircraft Finance operations was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue and the financial instrument liabilities which included the future servicing of the current debt. The estimated impact of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of Aircraft Finance operations using the historical simulation methodology, as previously described. As of September 30, 2004 and December 31, 2003, the average VaR with respect to the net fair value of Aircraft Finance operations was approximately \$52 million and \$38 million, respectively.

Capital Markets operations are exposed to market risk due to changes in the level and volatility of interest rates, foreign currency exchange rates, equity prices and commodity prices. AIGFP and AIGTG hedge their exposure to these risks primarily through swaps, options, forwards and futures. To economically hedge interest rate risks, these subsidiaries may also purchase U.S. and foreign government obligations.

AIGFP and AIGTG do not seek to manage the market risk of each transaction through an individual offsetting transaction. Rather, these subsidiaries take a portfolio approach to the management of their market risk exposures. AIGFP and AIGTG value their entire portfolios of market-sensitive transactions at market value or at estimated fair value when market values are not readily available. Unrealized gains and losses, with respect to this portfolio are reflected in income currently. These valuations represent an assessment of the present values of expected future cash flows of Capital Markets transactions and may include reserves for such risks as are deemed appropriate by AIGFP and AIG's management.

Estimated fair values are based upon the use of valuation models. These models utilize, among other things, market liquidity and current interest, foreign exchange, equity, commodity and volatility rates. These valuation models are integrated into the evaluation of the portfolio, as described above, in order to provide timely information for the market risk management of the portfolio. Based upon this evaluation, AIGFP and AIGTG determine what, if any, offsetting transactions are necessary to reduce the market risk exposure of the portfolio.

AIGFP and AIGTG manage market risk with a variety of transactions, including swaps, trading securities, futures and forward contracts and other transactions as appropriate. The recorded values of these transactions may be different than the values that might be realized if these subsidiaries were required to sell or close out the transactions prior to maturity. AIG believes that such differences are not significant to the results of operations, financial condition or liquidity. Such differences would be immediately recognized when the transactions are sold or closed out prior to maturity.

AIGFP and AIGTG attempt to secure reliable and independent current market prices, such as published exchange prices, external subscription services such as from Bloomberg or Reuters or third party broker quotes for use in this model. When such prices are not available, these subsidiaries use an internal methodology which includes interpolation or extrapolation from observable and verifiable prices nearest to the dates of the transactions. Historically, actual results have not materially deviated from these models.

Systems used by Capital Markets operations can monitor each unit's respective market positions on an intraday basis. The subsidiaries operate in major business centers overseas and are essentially open for business 24 hours a day. Thus, the market exposure and offset strategies are monitored, reviewed and coordinated around the clock.

AIGFP and AIGTG apply various testing techniques which reflect significant potential market movements in interest rates, foreign exchange rates, commodity and equity prices, volatility levels and the effect of time. These techniques vary by currency and are regularly changed to reflect factors affecting the derivatives portfolio. The results from these analyses are regularly reviewed by senior management.

As described above, Capital Markets operations are exposed to the risk of loss of fair value from adverse fluctuations in interest rate and foreign currency exchange rates and equity and commodity prices. AIG statistically measured the losses of fair value through the application of a VaR model across both units.

Capital Markets' asset and liability portfolios for which the VaR analyses were performed included over the counter and exchange traded investments, derivative instruments and commodities. Because the market risk with respect to securities available for sale, at market is substantially hedged, segregation of market sensitive instruments into trading and other than trading was not deemed necessary.

AIG calculated the VaR with respect to Capital Markets operations as of September 30, 2004 and December 31, 2003. AIG uses the historical simulation methodology which entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was repriced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The VaR number represents the maximum potential loss incurred by these scenarios with a 95 percent confidence (i.e., only 5 percent of historical scenarios show losses greater than the VaR figure). A one-month holding period was assumed in computing the VaR figure.

The following table presents the VaR on a combined basis and of each component of Capital Markets risk as of September 30, 2004 and December 31, 2003. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

<i>(in millions)</i>	2004	2003
Market risk:		
Combined	\$ 6	\$ 5
Interest rate	6	5
Currency	2	1
Equity	2	1

The following table presents the average, high and low VaRs on a combined basis and of each component of Capital Markets risk as of September 30, 2004 and December 31, 2003.

<i>(in millions)</i>	2004			2003		
	Average	High	Low	Average	High	Low
Combined	\$ 7	\$ 9	\$ 5	\$ 5	\$ 8	\$ 4
Interest rate	6	9	5	5	9	3
Currency	1	2	1	1	1	—
Equity	2	3	1	1	1	1

Derivatives

Derivatives are financial instruments among two or more parties with returns linked to or "derived" from some underlying equity, debt, commodity or other asset, liability, or index. Derivatives payments may be based on interest rates and exchange rates and/or prices of certain securities, certain commodities, financial or commodity indices, or other variables. The more significant types of derivative arrangements in which AIG transacts are swaps, forwards, futures and options. In the normal course of business, with the agreement of the original counterparty, these contracts may be terminated early or assigned to another counterparty.

The overwhelming majority of AIG's derivatives activities are conducted by the Capital Markets operations, thus permitting AIG to

participate in the derivatives dealer market acting primarily as principal. In these derivative operations, AIG structures agreements which generally allow its counterparties to enter into transactions with respect to changes in interest and exchange rates, securities' prices and certain commodities and financial or commodity indices. AIG's customers such as corporations, financial institutions, multinational organizations, sovereign entities, government agencies and municipalities use derivatives to hedge their own market exposures. For example, a futures, forward or option contract can be used to protect the customers' assets or liabilities against price fluctuations.

A counterparty may default on any obligation to AIG, including a derivative contract. Credit risk is a consequence of extending credit and/or carrying trading and investment positions. Credit risk exists for a derivative contract when

that contract has a positive fair value to AIG. To help manage this risk, the credit departments of AIGFP and AIGTG operate within the guidelines set by the AIG Credit Risk Committee. This committee establishes the credit policy, sets limits for counterparties and provides limits for derivative transactions with counterparties having different credit ratings. In addition to credit ratings, this committee takes into account other factors, including the industry and country of the counterparty. Transactions which fall outside these pre-established guidelines require the approval of the AIG Credit Risk Committee. It is also AIG's policy to establish reserves for potential credit impairment when necessary.

AIG's Derivatives Review Committee provides an independent review of any proposed derivative transaction except those derivative transactions entered into by Capital Markets for their own accounts. The committee examines, among other things, the nature and purpose of the derivative transaction, its potential credit exposure, if any, and the estimated benefits.

Generally, AIG conducts its businesses in the currencies of the local operating environment. Thus, exchange gains or losses occur when AIG's foreign currency net investment is affected by changes in the foreign exchange rates relative to the U.S. dollar from one reporting period to the next.

Legal risk with respect to derivatives arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of AIG's clients and counterparties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations. (See also Note 21 of Notes to Financial Statements in AIG's December 31, 2003 10-K for detailed information relating to Capital Markets derivative activities.)

Recent Accounting Standards

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 changes the method of determining whether certain entities should be consolidated in AIG's consolidated financial statements. In December 2003, FASB issued a revision to Interpretation No. 46 (FIN 46R).

In July 2003, the American Institute of Certified Public Accountants issued Statement of Position 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (SOP 03-1).

At the March 2004 meeting, the Emerging Issue Task Force (EITF) reached a consensus with respect to Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." On September 30, 2004, the FASB issued FASB Staff Position (FSP) EITF Issue 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments."

At the September 2004 meeting, the EITF reached a consensus with respect to Issue No. 04-8, "Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share."

For further discussion of recent accounting standards, see Note 7 of Notes to Financial Statements.

Controls and Procedures

AIG's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that AIG files or submits under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (SEC). Disclosure controls and procedures include controls and procedures reasonably designed to ensure that information required to be disclosed by AIG in the reports that it files or submits under the Exchange Act is accumulated and communicated to AIG's management, including AIG's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. AIG's management, with the participation of AIG's Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of AIG's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, AIG's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that the information required to be disclosed in the reports AIG files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. In addition, there has been no change in AIG's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the third fiscal quarter that has materially affected, or is reasonably likely to materially affect, AIG's internal control over financial reporting.

PART II – OTHER INFORMATION**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Period	Total Number of Shares Purchased(1)(2)(3)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs at End of Month(4)
January 1 - 31, 2004	—	\$ —	—	55,319,100
February 1 - 29, 2004	—	—	—	55,319,100
March 1 - 31, 2004	1,313,300	69.58	1,313,300	54,005,800
April 1 - 30, 2004	310,500	71.62	310,500	53,695,300
May 1 - 31, 2004	2,176,000	70.17	2,176,000	51,519,300
June 1 - 30, 2004	1,530,300	71.88	1,530,300	49,989,000
July 1 - 31, 2004	933,100	69.30	933,100	49,055,900
August 1 - 31, 2004	240,000	67.05	240,000	48,815,900
September 1 - 30, 2004	650,500	68.94	650,500	48,165,400
Total	7,153,700	\$ 70.16	7,153,700	

(1) Does not include 80,769 shares delivered or attested to in satisfaction of the exercise price by holders of AIG employee stock options exercised during the nine months ended September 30, 2004.

(2) Does not include 23,075 shares purchased by C.V. Starr & Co., Inc. at an average price of \$16.96 to satisfy obligations under its employee stock option and purchase plans.

(3) Does not include 4,000 shares purchased by International Lease Finance Corporation at an average price of \$70.57 to satisfy obligations under a deferred compensation plan.

(4) On July 19, 2002, AIG announced that its Board of Directors had authorized the open market purchase of up to 10 million shares of common stock. On February 13, 2003, AIG announced that the Board had expanded the existing program through the authorization of an additional 50 million shares. The purchase program has no set expiration or termination date.

ITEM 6. Exhibits

See accompanying Exhibit Index.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.
(Registrant)

/s/ HOWARD I. SMITH

(Howard I. Smith, Vice Chairman, Chief Financial Officer and Chief Administrative Officer)

Dated: November 9, 2004

EXHIBIT INDEX

Exhibit Number	Description	Location
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None.
4	Instruments defining the rights of security holders, including indentures	Not required to be filed.
9	Voting trust agreement	None.
10	Material contracts	
	(a) Form of Stock Option Grant Agreement under the American International Group, Inc. Amended and Restated 1999 Stock Option Plan	Filed herewith.
	(b) Form of Restricted Stock Unit Award Agreement under the American International Group, Inc. Amended and Restated 2002 Stock Incentive Plan	Filed herewith.
11	Statement re computation of per share earnings	Included in Note (3) of Notes to Financial Statements.
12	Statement re computation of ratios	Filed herewith.
15	Letter re unaudited interim financial information	None.
18	Letter re change in accounting principles	None.
19	Report furnished to security holders	None.
22	Published report regarding matters submitted to vote of security holders	None.
23	Consents of experts and counsel	None.
24	Power of attorney	None.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications	Filed herewith.
99	Additional exhibits	None.

**AMERICAN INTERNATIONAL GROUP, INC.
AMENDED AND RESTATED 1999 STOCK OPTION PLAN
STOCK OPTION GRANT AGREEMENT**

Agreement, dated [DATE OF GRANT], between American International Group, Inc. ("AIG") and [EMPLOYEE NAME] (the "Employee"), an employee of AIG or a subsidiary corporation of AIG.

The parties hereto agree as follows:

1. Grant of Option. AIG hereby grants to the Employee under the American International Group, Inc. Amended and Restated 1999 Stock Option Plan (the "Plan"), a copy of which is included as Appendix A to the Plan prospectus attached hereto and the terms and conditions of which are incorporated herein by reference, an option ("Option") to purchase all or any part of [NUMBER OF SHARES] shares of AIG Common Stock, par value \$2.50 per share, at a price of \$[OPTION PRICE] per share at any time after one year from the date hereof as to 25% of such shares, after two years from the date hereof as to 50% of such shares, after three years from the date hereof as to 75% of such shares and after four years from the date hereof as to 100% of such shares or at such earlier time as provided in the Plan, but not after the expiration of ten years from the date hereof.

2. Exercisability of Option. This Option is not transferable by the Employee other than by will or the laws of descent and distribution, and is exercisable during the lifetime of the Employee only by the Employee.

3. Employment Status. The Employee agrees with and represents to AIG that he or she will remain in the employ of and render services to AIG or a subsidiary of AIG for a period of at least one year from the date hereof, provided, however, that this Agreement does not confer upon the Employee any right to be retained in the employ of AIG or any subsidiary of AIG.

4. Disposition of Shares. The Employee will notify AIG promptly of the disposition of any shares purchased pursuant to this Option which are disposed of within two years from the date the Option was granted to the Employee, or within one year from the date the shares were transferred to the Employee. For purposes of the notification required by the preceding sentence, the word "disposition" shall have the meaning defined in Section 425(c) of the Internal Revenue Code of 1986, as amended.

5. Incentive Stock Option. With respect to [NUMBER OF SHARES] shares, this Option is intended to be an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended. With respect to [NUMBER OF SHARES] shares, this Option is intended to be a non-qualified option.

6. Consent to Jurisdiction. (a) **AIG AND EMPLOYEE HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE COUNTY OF NEW YORK OVER ANY ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THE OPTION.** AIG and the Employee acknowledge that the forum designated by this Paragraph 6(a) has a reasonable relation to the Plan and the Option and the Employee's relationship with AIG. Notwithstanding the foregoing, nothing herein shall preclude AIG from bringing any action, suit or proceeding in any other court for the purpose of enforcing the provisions of this Paragraph 6.

(b) The agreement by AIG and the Employee as to forum is independent of the law that may be applied in the action, suit or proceeding and AIG and the Employee, (i) agree to such forum even if the forum may under applicable law choose to apply non-forum law, (ii) hereby waive, to the fullest extent permitted by applicable law, any objection which AIG or the Employee now or hereafter may have to personal jurisdiction or to the laying of venue of any such action, suit or proceeding in any court referred to in Paragraph 6(a), (iii) undertake not to commence any action, suit or proceeding arising out of or relating to or concerning the Plan in any forum other than a forum described in this Paragraph 6, and (iv) agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgement in any such action, suit or proceeding in any such court shall be conclusive and binding upon AIG and the Employee.

(c) The Employee, as a condition to the Employee's participation in the Plan and receipt of the Option, irrevocably appoints the Corporate Secretary of AIG as the Employee's agent for service of process in connection with any action, suit or proceeding arising out of or relating to the Plan or the Option, who shall promptly advise the Employee of any such service of process.

(d) The Employee hereby agrees to keep confidential the existence of, and any information concerning, a dispute described in Paragraph 6, except that the Employee may disclose information concerning such dispute to the court that is considering such dispute or to the Employee's legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

(e) The Employee recognizes and agrees that prior to being selected to participate in the Plan the Employee has no right to any benefits hereunder. Accordingly, in consideration of the Employee's selection to participate in the Plan, the Employee expressly waives any right to contest the number of options granted to him or her, the terms of the Plan or the Option or any determination, action or omission under the Plan or the Option by AIG, AIG's Board of Directors, or a committee thereof.

American International Group, Inc.

By:

Chairman

Attest:

Employee

Address

City State Zip

Social Security Number

**AMERICAN INTERNATIONAL GROUP, INC.
AMENDED AND RESTATED 2002 STOCK INCENTIVE PLAN
RSU AWARD AGREEMENT**

This award agreement (this "*Award Agreement*") sets forth the terms and conditions of an award (this "*Award*") of restricted stock units ("*RSUs*") granted to you under the American International Group, Inc. Amended and Restated 2002 Stock Incentive Plan (the "*Plan*").

1. The Plan. This Award is made pursuant to the Plan, the terms of which are incorporated in this Award Agreement. Capitalized terms used in this Award Agreement that are not defined in this Award Agreement, or in the attached Glossary of Terms, have the meanings as used or defined in the Plan.

2. Award. The number of RSUs subject to this Award is set forth at the end of this Award Agreement. Each RSU constitutes an unfunded and unsecured promise of AIG to deliver (or cause to be delivered) to you, subject to the terms of this Award Agreement, one share of Common Stock (the "*Share*" or the "*Shares*" as the context requires) (or cash equal to the Fair Market Value thereof) on the Delivery Date as provided herein. Until such delivery, you have only the rights of a general unsecured creditor, and no rights as a shareholder, of AIG. **THIS AWARD IS SUBJECT TO ALL TERMS, CONDITIONS AND PROVISIONS OF THE PLAN AND THIS AWARD AGREEMENT, INCLUDING, WITHOUT LIMITATION, THE ARBITRATION AND CHOICE OF FORUM PROVISIONS SET FORTH IN PARAGRAPH 15.**

3. Vesting and Delivery.

(a) Vesting. Except as provided in this Paragraph 3 and in Paragraphs 4 and 6, you shall become vested in the RSUs, and the Shares underlying the RSUs shall be delivered, on the fourth anniversary of the Date of Grant specified at the end of this Award Agreement (the "*Vesting Date*"). Unless the Committee determines otherwise, and except as provided in Paragraph 6, if your Employment terminates for any reason prior to the Vesting Date, your rights in respect of all of your RSUs shall terminate, and no Shares (or cash) shall be delivered in respect of such RSUs.

(b) Delivery. Except as provided in this Paragraph 3 and in Paragraphs 4, 6, 8 and 9, the Shares underlying the RSUs shall be delivered on the Delivery Date. The Company may, at its option, deliver cash in lieu of all or any portion of the Shares otherwise deliverable on the Delivery Date specified at the end of this Award Agreement. Such cash payment shall equal the product of the number of Shares to be delivered on the Delivery Date and the Fair Market Value of one Share of Common Stock on the Delivery Date. You shall be deemed the beneficial owner of the Shares at the close of business on the Delivery Date and shall be entitled to any dividend or distribution that has not already been made with respect to such Shares if the record date for such dividend or distribution is after the close of business on the Delivery Date. Notwithstanding the foregoing, if the Delivery Date occurs at a time when you are considered by AIG to be one of its "covered employees" within the meaning of Section 162(m) of the Code, then, unless the Committee determines otherwise, delivery of the Shares (or cash) automatically shall be deferred until after you have ceased to be such a covered employee.

(c) Death. Notwithstanding any other provision of this Award Agreement, if you die prior to the Delivery Date, and provided your rights in respect of your RSUs have not previously terminated, the Shares (or cash in lieu of all or any part thereof) corresponding to your outstanding RSUs shall be delivered to the representative of your estate as soon as practicable after the date of death and after such documentation as may be requested by the Committee is provided to the Committee.

4. Termination of RSUs and Non-Delivery of Shares.

(a) Unless the Committee determines otherwise, and except as provided in Paragraphs 3(c) and 6, your rights in respect of your outstanding RSUs shall immediately terminate, and no Shares (or cash) shall be delivered in respect of such unvested RSUs, if at any time prior to the Vesting Date your Employment with the Company terminates for any reason, or you are otherwise no longer actively Employed by the Company.

(b) Unless the Committee determines otherwise, and except as provided in Paragraph 6, your rights in respect of all of your RSUs (whether or not vested) shall immediately terminate, and no Shares (or cash) shall be delivered in respect of such RSUs, if at any time prior to the Delivery Date:

(i) you attempt to have any dispute under this Award Agreement or the Plan resolved in any manner that is not provided for by Paragraph 15; or

(ii) any event that constitutes Cause has occurred; or

(iii) you in any manner, directly or indirectly, (A) Solicit any Client to transact business with a Competitive Enterprise or to reduce or refrain from doing any business with the Company or (B) interfere with or damage (or attempt to interfere with or damage) any relationship between the Company and any such Client or (C) Solicit any person who is an employee of the Company to resign from the Company or to apply for or accept employment with any Competitive Enterprise; or

(iv) you fail to certify to AIG, in accordance with procedures established by the Committee, with respect to the Delivery Date that you have complied, or the Committee determines that you have failed as of the Delivery Date to comply, with all of the terms and conditions of this Award Agreement. By accepting the delivery of Shares (or cash) under this Award Agreement, you shall be deemed to have represented and certified at such time that you have complied with all the terms and conditions of this Award Agreement.

(c) Unless the Committee determines otherwise, if the Delivery Date in respect of any of your outstanding RSUs occurs, and Shares (or cash) with respect to such outstanding RSUs would be deliverable under the terms and conditions of this Award Agreement, except that you have not complied with the conditions or your obligations under Paragraph 4(b)(iv), all of your rights with respect to your outstanding RSUs shall terminate no later than the Delivery Date for such Shares.

5. Repayment. If, following the delivery of Shares (or cash), the Committee determines that all terms and conditions of this Award Agreement in respect of such delivery were not satisfied, the Company shall be entitled to receive, and you shall be obligated to pay the Company immediately upon demand therefor, the Fair Market Value of the Shares (determined as of the Delivery Date) and the amount of cash (to the extent that cash was delivered in lieu of Shares) delivered with respect to the Delivery Date, without reduction for any Shares (or cash) applied to satisfy withholding tax or other obligations in respect of such Shares (or cash).

6. Disability and Retirement.

(a) Notwithstanding any other provision of this Award Agreement, but subject to Paragraph 6(b), if your Employment with the Company is terminated by reason of Disability or Retirement, the condition set forth in Paragraph 4(a) shall be waived with respect to your then outstanding unvested RSUs (as a result of which any such then unvested outstanding RSUs shall vest), but all other conditions of this Award Agreement shall continue to apply.

(b) Without limiting the application of Paragraph 4(b) or Paragraph 4(c), your rights in respect of any outstanding RSUs that become vested solely by reason of Paragraph 6(a) immediately shall terminate, and no Shares (or cash) shall be delivered in respect of such outstanding RSUs if, following the termination of your Employment with the Company by reason of Disability or Retirement and prior to the Delivery Date, you (i) form, or acquire a 5% or greater equity ownership, voting or profit participation interest in, any Competitive Enterprise or (ii) associate in any capacity (including, but not limited to, association as an officer, employee, partner, director, consultant, agent or advisor) with any Competitive Enterprise.

7. Non-transferability. Except as otherwise may be provided by the Committee, the limitations set forth in Section 3.4 of the Plan shall apply. Any assignment in violation of the provisions of this Paragraph 7 shall be null and void.

8. Withholding, Consents and Legends.

(a) The delivery of Shares is conditioned on your satisfaction of any applicable withholding taxes (in accordance with Section 3.2 of the Plan).

(b) Your rights in respect of your RSUs are conditioned on the receipt to the full satisfaction of the Committee of any required consents (as defined in Section 3.3 of the Plan) that the Committee may determine to be necessary or advisable (including, without limitation, your consenting to deductions from your wages, or another arrangement satisfactory to the Committee, to reimburse the Company for advances made on your behalf to satisfy withholding and other tax obligations in connection with this Award).

(c) AIG may affix to Certificates representing Shares issued pursuant to this Award Agreement any legend that the Committee determines to be necessary or advisable (including to reflect any restrictions to which you may be subject under a separate agreement with AIG). AIG may advise the transfer agent to place a stop transfer order against any legended Shares.

9. Right of Offset. The Company shall have the right to offset against the obligation to deliver Shares (or cash) under this Award Agreement any outstanding amounts (including, without limitation, travel and entertainment or advance account balances, loans, or amounts repayable to the Company pursuant to tax equalization, housing, automobile or other employee programs) you then owe to the Company and any amounts the Committee otherwise deems appropriate.

10. No Rights to Continued Employment. Nothing in this Award Agreement or the Plan shall be construed as giving you any right to continued Employment by the Company or affect any right that the Company may have to terminate or alter the terms and conditions of your Employment.

11. Successors and Assigns of AIG. The terms and conditions of this Award Agreement shall be binding upon, and shall inure to the benefit of, AIG and its successor entities (as defined in Section 3.6 of the Plan.)

12. Committee Discretion. The Committee shall have full discretion with respect to any actions to be taken or determinations to be made in connection with this Award Agreement, and its determinations shall be final, binding and conclusive.

13. Amendment. The Committee reserves the right at any time to amend the terms and conditions set forth in this Award Agreement, and the Board may amend the Plan in any respect; *provided, that*, notwithstanding the foregoing and Sections 1.3.1(i), 1.3.1(ii) and 3.1 of the Plan, no such amendment shall materially adversely affect your rights and obligations under this Award Agreement without your consent, except that the Committee reserves the right to accelerate the delivery of the Shares and in its discretion provide that such Shares may not be transferable until the Delivery Date on which such Shares otherwise would have been delivered (and that in respect of such Shares you may remain subject to the repayment obligations of Paragraph 5 in the circumstances under which the Shares would not have been delivered pursuant to Paragraph 4 or Paragraph 6). Any amendment of this Award Agreement shall be in writing signed by an authorized member of the Committee or a person or persons designated by the Committee.

14. Adjustment. In the event of a recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation, rights offering, separation, reorganization or liquidation, or any other change in the corporate structure or the Shares, subsequent to the date of the Date of Grant, the Committee or the Board shall make such equitable adjustments, designed to protect dilution or enlargement of rights, as it may deem appropriate, in the number and kind of Shares covered by the RSUs subject to this Award Agreement.

15. Arbitration; Choice of Forum.

(a) Any dispute, controversy or claim between the Company and you, arising out of or relating to or concerning the Plan or this Award Agreement, shall be finally settled by arbitration in New York City before, and in accordance with the rules then obtaining of, the New York Stock Exchange, Inc. (the “NYSE”) or, if the NYSE declines to arbitrate the matter (or if the matter otherwise is not arbitrable by it), the American Arbitration Association (the “AAA”) in accordance with the commercial arbitration rules of the AAA. Prior to arbitration, all claims maintained by you must first be submitted to the Committee in accordance with claims procedures determined by the Committee. This Paragraph is subject to the provisions of Paragraphs 15(b) and (c) below.

(b) THE COMPANY AND YOU HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN THE CITY OF NEW YORK OVER ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO OR CONCERNING THE PLAN OR THIS AWARD AGREEMENT THAT IS NOT OTHERWISE ARBITRATED OR RESOLVED ACCORDING TO PARAGRAPH 14(a) OF THIS AWARD AGREEMENT. This includes any suit, action or proceeding to compel arbitration or to enforce an arbitration award. The Company and you acknowledge that the forum designated by this Paragraph 15(b) has a reasonable relation to the Plan, this Award Agreement, and to your relationship with the Company. Notwithstanding the foregoing, nothing herein shall preclude the Company from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of this Paragraph 15.

(c) The agreement by you and the Company as to forum is independent of the law that may be applied in the action, and you and the Company agree to such forum even if the forum may under applicable law choose to apply non-forum law. You and the Company hereby waive, to the fullest extent permitted by applicable law, any objection which you or the Company now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in Paragraph 15(b). You and the Company undertake not to commence any action, suit or

proceeding arising out of or relating to or concerning this Award Agreement in any forum other than a forum described in this Paragraph 15. You and (subject to the last sentence of Paragraph 15(a)) the Company agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon you and the Company.

(d) You irrevocably appoint the Secretary of AIG as your agent for service of process in connection with any action, suit or proceeding arising out of or relating to or concerning this Award Agreement which is not arbitrated pursuant to the provisions of Paragraph 15(a), who shall promptly advise you of any such service of process.

(e) You hereby agree to keep confidential the existence of, and any information concerning, a dispute described in this Paragraph 15, except that you may disclose information concerning such dispute to the arbitrator or court that is considering such dispute or to your legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute).

(f) You recognize and agree that prior to the grant of this Award you have no right to any benefits hereunder. Accordingly, in consideration of the receipt of this Award, you expressly waive any right to contest the amount of this Award, terms of this Award Agreement, any determination, action or omission hereunder or under the Plan by the Committee, AIG or the Board, or any amendment to the Plan or this Award Agreement (other than an amendment to which your consent is expressly required by Paragraph 13) and you expressly waive any claim related in any way to the Award including any claim based on any promissory estoppel or other theory in connection with this Award and your Employment with the Company.

16. Governing Law. THIS AWARD SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAWS.

17. Headings. The headings in this Award Agreement are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

IN WITNESS WHEREOF, AMERICAN INTERNATIONAL GROUP, INC. has caused this Award Agreement to be duly executed and delivered as of the Date of Grant.

AMERICAN INTERNATIONAL GROUP, INC.

By _____
Name:
Title:

By _____
Name:
Title:

Recipient:

Number of RSUs:

Date of Grant:

Delivery Date:

Glossary of Terms

Solely for purposes of this award of RSUs, the following terms shall have the meanings set forth below. Capitalized terms not defined in this Glossary of Terms shall have the meanings as used or defined in the applicable Award Agreement or the Plan.

“Cause” means (i) your conviction, whether following trial or by plea of guilty or *nolo contendere* (or similar plea), in a criminal proceeding (A) on a misdemeanor charge involving fraud, false statements or misleading omissions, wrongful taking, embezzlement, bribery, forgery, counterfeiting or extortion, or (B) on a felony charge or (C) on an equivalent charge to those in clauses (A) and (B) in jurisdictions which do not use those designations; (ii) your engaging in any conduct which constitutes an employment disqualification under applicable law (including statutory disqualification as defined under the Exchange Act); (iii) your failure to perform your duties to the Company; (iv) your violation of any securities or commodities laws, any rules or regulations issued pursuant to such laws, or the rules and regulations of any securities or commodities exchange or association of which AIG or any of its subsidiaries or affiliates is a member; (v) your violation of any Company policy concerning hedging or confidential or proprietary information, or your material violation of any other Company policy as in effect from time to time; (vi) your engaging in any act or making any statement which impairs, impugns, denigrates, disparages or negatively reflects upon the name, reputation or business interests of the Company; or (vii) your engaging in any conduct detrimental to the Company. The determination as to whether “Cause” has occurred shall be made by the Committee in its sole discretion. The Committee shall also have the authority in its sole discretion to waive the consequences under the Plan or any Award Agreement of the existence or occurrence of any of the events, acts or omissions constituting “Cause.”

“Client” means any client or prospective client of the Company to whom you provided services, or for whom you transacted business, or whose identity became known to you in connection with your relationship with or Employment by the Company.

“Competitive Enterprise” means a business enterprise that (i) engages in any activity, or (ii) owns or controls a significant interest in any entity that engages in any activity, that, in either case, competes anywhere with any activity in which the Company is engaged. The activities covered by the previous sentence include, without limitation, all insurance and re-insurance and insurance and re-insurance-related activities, asset management, financial product activities (including, without limitation, derivative activities) and financial services in the United States and abroad.

“Delivery Date” means each date specified as the Delivery Date in the Award (or as soon as practicable, but in no case more than 10 days, thereafter).

“Disability” means “permanent disability” as defined in the American International Group, Inc. Group Long – Term Insurance Policy as in effect on the Date of Grant.

“Retirement” means “normal retirement” as defined in the American International Group, Inc. Retirement Plan as in effect on the Date of Grant.

“Solicit” means any direct or indirect communication of any kind whatsoever, regardless of by whom initiated, inviting, advising, encouraging or requesting any person or entity, in any manner, to take or refrain from taking any action.

American International Group, Inc.

Computation of Ratios of Earnings to Fixed Charges

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2004	2003	2004	2003
<i>(in millions, except ratios)</i>				
Income before income taxes, minority interest and cumulative effect of an accounting change	\$ 12,638	\$ 9,858	\$ 3,958	\$ 3,504
Less – Equity income (loss) of less than 50% owned persons	94	104	(13)	55
Add – Dividends from less than 50% owned persons	19	8	9	2
	12,563	9,762	3,980	3,451
Add – Fixed charges	4,709	4,268	1,629	1,432
Less – Capitalized interest	42	35	15	13
Income before income taxes, minority interest, cumulative effect of an accounting change and fixed charges	\$ 17,230	\$ 13,995	\$ 5,594	\$ 4,870
Fixed charges:				
Interest costs	\$ 4,573	\$ 4,134	\$ 1,584	\$ 1,387
Rental expense*	136	134	45	45
Total fixed charges	\$ 4,709	\$ 4,268	\$ 1,629	\$ 1,432
Ratio of earnings to fixed charges	3.66	3.28	3.43	3.40
Secondary Ratio				
Interest credited to GIC and GIA policy and contract holders	\$ 3,089	\$ 2,709	\$ 1,071	\$ 912
Total fixed charges excluding interest credited to GIC and GIA policy and contract holders	\$ 1,620	\$ 1,559	\$ 558	\$ 520
Secondary ratio of earnings to fixed charges	8.73	7.24	8.10	7.61

* The proportion deemed representative of the interest factor.

The secondary ratio is disclosed for the convenience of fixed income investors and the rating agencies that serve them and is more comparable to the ratios disclosed by all issuers of fixed income securities. The secondary ratio removes interest credited to guaranteed investment contract (GIC) policyholders and guaranteed investment agreement (GIA) contractholders. Such expenses are also removed from income before income taxes, minority interest and cumulative effect of an accounting change used in this calculation. GICs and GIAs are entered into by AIG's insurance subsidiaries, principally Sun America Life Insurance Company and AIG Financial Products Corp. and its subsidiaries, respectively. The proceeds from GICs and GIAs are invested in a diversified portfolio of securities, primarily investment grade bonds. The assets acquired yield rates greater than the rates on the related policyholders obligation or agreement, with the intent of earning operating income from the spread.

CERTIFICATION

I, M.R. Greenberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted pursuant to SEC Release No. 33-8238];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ M.R. GREENBERG

M.R. Greenberg
Chairman and Chief Executive Officer

Date: November 9, 2004

CERTIFICATION

I, Howard I. Smith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Omitted pursuant to SEC Release No. 33-8238];

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HOWARD I. SMITH

Howard I. Smith
Vice Chairman, Chief Financial Officer and
Chief Administrative Officer

Date: November 9, 2004

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, M.R. Greenberg, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ M.R. GREENBERG

M.R. Greenberg
Chief Executive Officer

Date: November 9, 2004

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of American International Group, Inc. (the "Company") for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard I. Smith, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ HOWARD I. SMITH

Howard I. Smith
Chief Financial Officer

Date: November 9, 2004

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.