AMERICAN INTERNATIONAL GROUP INC
Form 10-Q/A
May 10, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the quarterly period ended March 31, 2005

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-8787

American International Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer ü Accelerated filer ______ Non-accelerated filer ______

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of March 31, 2005: 2,594,907,032.

Explanatory Note

Overview. This amendment to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 (First Quarter Form 10-Q/A) is being filed for purposes of amending Items 1, 2, 3 and 4 of Part I and Item 6 of Part II of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005 (First Quarter Form 10-Q) of American International Group, Inc. (AIG), which was originally filed on June 28, 2005, and provides information about the financial results for the three month periods ended March 31, 2005 and 2004 as restated for the restatements described in AIG s Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Annual Report on Form 10-K). Information in this First Quarter Form 10-Q/A is generally stated as of March 31, 2005 and generally does not reflect any subsequent information or events other than the restatements, except that certain forward looking statements throughout this First Quarter Form 10-Q/A have been revised to reflect events and developments subsequent to March 31, 2005. Information regarding subsequent periods with respect to AIG is contained in the 2005 Annual Report on Form 10-K and other filings with the Securities and Exchange Commission (SEC). This filing should be considered, and read, in conjunction with such filings.

First Restatement. In connection with the preparation of AIG s consolidated financial statements included in AIG s Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Annual Report on Form 10-K), AIG s management initiated an internal review of its books and records, which was substantially expanded in mid-March 2005 with the oversight of the Audit Committee of the Board of Directors of AIG. The review spanned AIG s major business units globally, and included a number of transactions from 2000 to 2004. As disclosed in the 2004 Annual Report on Form 10-K, as a result of the findings of the internal review, together with the results of investigations by outside counsel at the request of AIG s Audit Committee and in consultation with PricewaterhouseCoopers LLP, AIG s independent registered public accounting firm, AIG restated its consolidated financial statements for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 (the First Restatement).

Second Restatement. As announced on November 9, 2005, AIG identified certain errors, the preponderance of which were identified during the remediation of the material weaknesses in internal control over financial reporting, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133), reconciliation of certain balance sheet accounts and income tax accounting. AIG also announced it was correcting errors that were identified since the First Restatement, including those relating to the accounting for certain payments received from aircraft and engine manufacturers by International Lease Finance Corporation (ILFC), which were originally corrected in AIG s Form 10-Q for the quarter ended June 30, 2005 (Second Quarter Form 10-Q). The adjustments to correct the foregoing errors are referred to in this First Quarter Form 10-Q/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal control over financial reporting referred to above, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in the Domestic Brokerage Group (DBG). As a result, AIG included further adjustments (the Additional Adjustments) in its restatement of the consolidated financial statements and financial statement schedules for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and in the restated consolidated financial statements included in this First Quarter Form 10-Q/A. The Initial Adjustments and the Additional Adjustments are referred to herein as the Second Restatement. AIG s quarterly report on Form 10-Q for the quarter ended September 30, 2005 (September 2005 Form 10-Q) will not be amended because the Additional Adjustments to the financial statements included therein are not material to those financial statements.

The financial information that is included in this First Quarter Form 10-Q/A has been restated as part of the First Restatement and the Second Restatement (the Restatements). Only restated financial information that is being presented for the first time in this First Quarter Form 10-Q/A is identified herein as Restated . All previously presented, restated financial information is identified as such in the respective SEC filing in which the information was restated.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET

(in millions) (unaudited)

	March 31, 2005 (Restated)	December 31, 2004
Assets:		
Investments and financial services assets:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2005 $338,161; 2004 $329,838)	**$ 350,400**	$ 344,399
Bonds held to maturity, at amortized cost (market value: 2005 $21,734; 2004 $18,791)	**21,477**	18,294
Bond trading securities, at market value (cost: 2005 $3,562; 2004 $2,973)	**3,580**	2,984
Equity securities:		
Common stocks available for sale, at market value (cost: 2005 $9,075; 2004 $8,424)	**10,751**	9,772
Common stocks trading, at market value (cost: 2005 $5,947; 2004 $5,651)	**6,379**	5,894
Preferred stocks, at market value (cost: 2005 $2,272; 2004 $2,017)	**2,280**	2,040
Mortgage loans on real estate, net of allowance (2005 $62; 2004 $65)	**14,065**	13,146
Policy loans	**7,109**	7,035
Collateral and guaranteed loans, net of allowance (2005 $16; 2004 $18)	**3,309**	3,303
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2005 $6,718; 2004 $6,390)	**33,896**	32,130
Securities available for sale, at market value (cost: 2005 $28,946; 2004 $29,171)	**29,660**	31,225
Trading securities, at market value	**3,091**	2,746
Spot commodities	**654**	534
Unrealized gain on swaps, options and forward transactions	**20,149**	22,670
Trading assets	**1,507**	3,433
Securities purchased under agreements to resell, at contract value	**32,593**	26,272
Finance receivables, net of allowance (2005 $573; 2004 $571)	**24,929**	23,574
Securities lending collateral, at market value (which approximates cost)	**51,890**	49,169
Other invested assets	**25,608**	23,559
Short-term investments, at cost (approximates market value)	**22,017**	16,102
Total investments and financial services assets	**665,344**	638,281
Cash	**2,361**	2,009
Investment income due and accrued	**5,609**	5,556
Premiums and insurance balances receivable, net of allowance (2005 $682; 2004 $690)	**16,222**	15,622
Reinsurance assets, net	**19,372**	19,613
Deferred policy acquisition costs	**31,625**	29,817
Investments in partially owned companies	**1,544**	1,495
Real estate and other fixed assets, net of accumulated depreciation (2005 $4,688; 2004 $4,650)	**6,190**	6,192
Separate and variable accounts	**57,417**	57,741
Goodwill	**8,532**	8,556
Income taxes receivable current		138
Other assets	**16,261**	16,125
Total assets	**$ 830,477**	$ 801,145

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET *(continued)*

(in millions, except share data) (unaudited)

	March 31, 2005 (Restated)	December 31, 2004
Liabilities:		
Reserve for losses and loss expenses	**$ 63,570**	$ 61,878
Reserve for unearned premiums	**24,088**	23,400
Future policy benefits for life and accident and health insurance contracts	**108,186**	104,740
Policyholders contract deposits	**225,690**	216,474
Other policyholders funds	**10,212**	10,280
Reserve for commissions, expenses and taxes	**4,772**	4,629
Insurance balances payable	**4,269**	3,661
Funds held by companies under reinsurance treaties	**3,137**	3,404
Income taxes payable:		
Current	**585**	
Deferred	**6,118**	6,588
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	**22,691**	18,919
Securities sold under agreements to repurchase, at contract value	**21,642**	23,581
Trading liabilities	**1,482**	2,503
Securities and spot commodities sold but not yet purchased, at market value	**5,586**	5,404
Unrealized loss on swaps, options and forward transactions	**12,866**	15,985
Trust deposits and deposits due to banks and other depositors	**4,612**	4,248
Commercial paper	**8,477**	6,724
Notes, bonds, loans and mortgages payable	**64,327**	61,296
Commercial paper	**3,479**	2,969
Notes, bonds, loans and mortgages payable	**5,558**	5,502
Liabilities connected to trust preferred stock	**1,489**	1,489
Separate and variable accounts	**57,417**	57,741
Minority interest	**5,208**	4,831
Securities lending payable	**52,693**	49,972
Other liabilities	**30,517**	25,055
Total liabilities	**748,671**	721,273
Preferred shareholders equity in subsidiary companies	**198**	199
Commitments and Contingent Liabilities (See Note 7)		
Shareholders equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2005 2,751,327,476; 2004 2,751,327,476	**6,878**	6,878
Additional paid-in capital	**2,104**	2,094
Retained earnings	**66,813**	63,468
Accumulated other comprehensive income (loss)	**8,125**	9,444
Treasury stock, at cost; 2005 156,420,444; 2004 154,904,286 shares of common stock	**(2,312)**	(2,211)
Total shareholders equity	**81,608**	79,673
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 830,477**	$ 801,145

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

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

Three Months Ended March 31,	2005 (Restated)	2004
Revenues:		
Premiums and other considerations	**$ 17,680**	$ 15,979
Net investment income	**5,332**	4,600
Realized capital gains (losses)	**137**	(86)
Other revenues	**4,053**	2,729
Total revenues	**27,202**	23,222
Benefits and expenses:		
Incurred policy losses and benefits	**14,873**	13,590
Insurance acquisition and other operating expenses	**6,680**	5,790
Total benefits and expenses	**21,553**	19,380
Income before income taxes, minority interest and cumulative effect of an accounting change	**5,649**	3,842
Income taxes (benefits):		
Current	**968**	1,345
Deferred	**738**	(215)
	1,706	1,130
Income before minority interest and cumulative effect of an accounting change	**3,943**	2,712
Minority interest	**(144)**	(70)
Income before cumulative effect of an accounting change	**3,799**	2,642
Cumulative effect of an accounting change, net of tax		(144)
Net income	**$ 3,799**	$ 2,498
Earnings per common share:		
Basic		
Income before cumulative effect of an accounting change	**$ 1.46**	$ 1.01
Cumulative effect of an accounting change, net of tax		(0.06)
Net income	**1.46**	0.95
Diluted		
Income before cumulative effect of an accounting change	**$ 1.45**	$ 1.00
Cumulative effect of an accounting change, net of tax		(0.06)
Net income	**1.45**	0.94

Dividends declared per common share	**$**	**0.175**	$	0.065
Average shares outstanding:				
Basic		**2,597**		2,610
Diluted		**2,624**		2,642

See Accompanying Notes to Consolidated Financial Statements.

American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions) (unaudited)

Three Months Ended March 31,	2005 (Restated)	2004 (Restated)
Summary:		
Net cash (used in) provided by operating activities	**$ (434)**	$ 8,006
Net cash used in investing activities	**(20,118)**	(29,658)
Net cash provided by financing activities	**20,961**	22,348
Effect of exchange rate changes on cash	**(57)**	302
Change in cash	**352**	998
Cash at beginning of period	**2,009**	922
Cash at end of period	**$ 2,361**	$ 1,920
Cash flows from operating activities:		
Net income	**$ 3,799**	$ 2,498
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	**5,605**	6,698
Premiums and insurance balances receivable and payable net	**8**	(728)
Reinsurance assets	**241**	(403)
Deferred policy acquisition costs	**(944)**	(1,082)
Investment income due and accrued	**(53)**	(337)
Funds held under reinsurance treaties	**(267)**	102
Other policyholders funds	**(68)**	473
Current and deferred income taxes net	**1,457**	1,209
Reserve for commissions, expenses and taxes	**143**	389
Other assets and liabilities net	**(962)**	(410)
Bonds and common stocks trading, at market value	**(1,082)**	(732)
Trading assets and liabilities net	**905**	(638)
Trading securities, at market value	**(345)**	(1,458)
Spot commodities	**(120)**	67
Net unrealized (gain) loss on swaps, options and forward transactions	**(598)**	139
Securities purchased under agreements to resell	**(6,321)**	1,819
Securities sold under agreements to repurchase	**(1,939)**	260
Securities and spot commodities sold but not yet purchased, at market value	**182**	(244)
Realized capital (gains) losses	**(137)**	86
Equity in income of partially owned companies and other invested assets	**(445)**	(316)
Amortization of premium and discount on securities	**113**	77
Depreciation expenses, principally flight equipment	**526**	486
Provision for finance receivable losses	**86**	90
Other net	**(218)**	(39)

Total adjustments		**(4,233)**		5,508
Net cash (used in) provided by operating activities	**$**	**(434)**	$	8,006

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(in millions) (unaudited)

Three Months Ended March 31,	2005 (Restated)	2004 (Restated)
Cash flows from investing activities:		
Cost of bonds, at market sold	**$ 27,572**	$ 28,449
Cost of bonds, at market matured or redeemed	**2,823**	3,947
Cost of equity securities sold	**2,724**	3,258
Realized capital gains (losses)	**137**	(86)
Purchases of fixed maturities	**(42,094)**	(46,832)
Purchases of equity securities	**(3,608)**	(3,987)
Mortgage, policy and collateral loans granted	**(1,578)**	(206)
Repayments of mortgage, policy and collateral loans	**575**	539
Sales of securities available for sale	**804**	620
Maturities of securities available for sale	**2,164**	324
Purchases of securities available for sale	**(2,316)**	(3,066)
Sales of flight equipment	**41**	1,080
Purchases of flight equipment	**(2,141)**	(1,815)
Change in securities lending collateral	**(2,721)**	(10,500)
Net additions to real estate and other fixed assets	**(188)**	(182)
Sales or distributions of other invested assets	**2,163**	2,171
Investments in other invested assets	**(3,339)**	(3,747)
Change in short-term investments	**301**	1,356
Investments in partially owned companies	**4**	(6)
Finance receivable originations and purchases	**(10,605)**	(5,579)
Finance receivable principal payments received	**9,164**	4,604
Net cash used in investing activities	**$ (20,118)**	$ (29,658)
Cash flows from financing activities:		
Receipts from policyholders contract deposits	**$ 16,279**	$ 13,062
Withdrawals from policyholders contract deposits	**(7,149)**	(4,507)
Change in trust deposits and deposits due to banks and other depositors	**364**	50
Change in commercial paper	**2,263**	1,875
Proceeds from notes, bonds, loans and mortgages payable	**16,244**	7,153
Repayments on notes, bonds, loans and mortgages payable	**(13,081)**	(5,641)
Proceeds from guaranteed investment agreements	**4,955**	1,505
Maturities of guaranteed investment agreements	**(1,183)**	(1,428)
Change in securities lending payable	**2,721**	10,500
Proceeds from common stock issued	**31**	40
Cash dividends to shareholders	**(325)**	(170)
Acquisition of treasury stock	**(166)**	(92)
Other net	**8**	1

Net cash provided by financing activities	**$**	**20,961**	$	22,348
Supplementary information:				
Taxes paid	**$**	**382**	$	493
Interest paid	**$**	**1,147**	$	1,032

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions) (unaudited)

Three Months Ended March 31,	2005 (Restated)	2004
Comprehensive income (loss):		
Net income	**$ 3,799**	$ 2,498
Other comprehensive income (loss):		
Unrealized (depreciation) appreciation of investments net of reclassification adjustments	**(2,535)**	4,546
Deferred income tax benefit (expense) on above changes	**1,256**	(1,436)
Foreign currency translation adjustments	**(53)**	302
Applicable income tax benefit (expense) on above changes	**4**	(34)
Net derivative gains arising from cash flow hedging activities	**150**	21
Deferred income tax (expense) benefit on above changes	**(111)**	3
Retirement plan liabilities adjustment, net of tax	**(30)**	(27)
Other comprehensive income (loss)	**(1,319)**	3,375
Comprehensive income (loss)	**$ 2,480**	$ 5,873

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Financial Statement Presentation

These statements are unaudited. In the opinion of management, all material adjustments including 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 2004 financial statements to conform to their 2005 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, 2005 (2005 Annual Report on Form 10-K).

As more fully described in AIG s 2004 Annual Report on Form 10-K for the year ended December 31, 2004, which was originally filed May 31, 2005 (2004 Annual Report on Form 10-K), and AIG s Forms 10-Q/A for the quarterly periods ended March 31, 2004 and June 30, 2004, AIG restated the accounting for certain transactions and certain relationships for the quarters ended March 31, 2004 and June 30, 2004, as part of the restatement of its financial statements for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 (the First Restatement).

As announced on November 9, 2005, AIG identified certain errors, the preponderance of which were identified during the remediation of the material weaknesses in internal control over financial reporting, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting. Due to the significance of these corrections, AIG restated its consolidated financial statements for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and the first three quarters of 2005 (the Second Restatement, and together with the First Restatement, the Restatements). As part of the Second Restatement, AIG also corrected errors that have been identified since the First Restatement, including those relating to the accounting for certain payments received from aircraft and engine manufacturers by International Lease Finance Corporation (ILFC), which were originally corrected as an out-of-period item in AIG s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (Second Quarter Form 10-Q).

2. Restatements of Previously Issued Financial Statements

The following provides a description of the accounting adjustments included in the Restatements of AIG s consolidated financial statements and the effect of the adjustments on AIG s Consolidated Balance Sheet at March 31, 2005 and December 31, 2004 and its Consolidated Statement of Income for the three month periods ended March 31, 2005 and 2004 and Consolidated Statement of Cash Flows for the quarters ended March 31, 2005 and 2004. All prior period amounts included in this report affected by the Restatements are presented on a restated basis.

(a) First Restatement

In connection with the preparation of AIG s consolidated financial statements included in AIG s 2004 Annual Report on Form 10-K, AIG s management initiated an internal review of its books and records, which was substantially expanded in mid-March 2005 with the oversight of the Audit Committee of the Board of Directors of AIG. The review spanned AIG s major business units globally, and included a number of transactions from 2000 to 2004. As disclosed in the 2004 Annual Report on Form 10-K, as a result of the findings of the internal review, together with the results of investigations by outside counsel at the request of AIG s Audit Committee and in consultation with PricewaterhouseCoopers LLP, AIG s independent registered public accounting firm, AIG restated its consolidated financial statements and financial statement schedules for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 (the First Restatement).

AIG disclosed in its 2004 Annual Report on Form 10-K that it had identified a number of material weaknesses in internal control over financial reporting, including controls over certain balance sheet reconciliations, controls over the accounting for certain derivative transactions and controls over income tax accounting. AIG has been and continues to be actively engaged in the implementation of remediation efforts to address all of these material weaknesses in internal control over financial reporting.

See Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 of Notes to Consolidated Financial Statements in the 2004 Annual Report on Form 10-K for a discussion of the First Restatement and a reconciliation of previously reported amounts to the restated amounts for the years ended December 31, 2003, 2002, 2001 and 2000, and see below for reconciliation of such amounts for the quarter ended March 31, 2004.

(b) Second Restatement

As announced on November 9, 2005, AIG identified certain additional errors, the preponderance of which were identified during the remediation of the material weaknesses in internal control over financial reporting, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting.

AIG also announced it was correcting errors that were identified since the First Restatement, including those relating to the accounting for certain payments received from aircraft

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

and engine manufacturers by ILFC, which were originally corrected in AIG s Second Quarter Form 10-Q. The adjustments to correct the foregoing errors are referred to in this First Quarter Form 10-Q/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal control over financial reporting referred to above, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in DBG. As a result, AIG included further adjustments (the Additional Adjustments) in its restatement of the consolidated financial statements and financial statement schedules for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and is restating the first three quarters of 2005. The Initial Adjustments and the Additional Adjustments are referred to herein as the Second Restatement. AIG s Quarterly Report on Form 10-Q for the quarter ended September 30, 2005 will not be amended because the Additional Adjustments to the financial statements included therein are not material to those financial statements.

Details of the Initial Adjustments in the Second Restatement. The accounting adjustments relate primarily to the categories described below.

Accounting for Derivatives (FAS 133 Hedge Accounting). During the third quarter of 2005, AIG identified and corrected additional errors identified during the remediation of the previously disclosed material weakness in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133.

Included in the Initial Adjustments to correct AIG s accounting for derivatives are adjustments correcting the errors in accounting for certain secured financings where AIGFP had sold an available-for-sale security and concurrently entered into a total return swap with a repurchase obligation. The Initial Adjustments for these errors increased both securities available for sale, at market value, and securities sold under agreements to repurchase, by approximately $2 billion as of December 31, 2004.

The Initial Adjustments to reflect appropriate GAAP accounting for these derivatives and related assets and liabilities, including related currency translation gains and losses, increased net income by approximately $70 million and decreased net income by approximately $28 million for the quarters ended March 31, 2005 and 2004, respectively, and increased total shareholders equity by approximately $367 million as of December 31, 2004.

Asset Realization Domestic Brokerage Group (DBG) Issues. During the third quarter of 2005, AIG concluded that additional adjustments should be made to the value of certain DBG reserves and allowances for doubtful accounts for time periods prior to January 1, 2003, resulting in an after-tax reduction in total shareholders equity at December 31, 2004 of approximately $205 million. The adjustments had no effect on net income for the quarters ended March 31, 2005 and 2004.

Income Tax Accounting. During the third quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The most significant adjustment resulted from AIG incorrectly recording the income tax benefit resulting from employee exercises of stock options as a reduction in income tax expense rather than as an increase in additional paid-in capital as required by GAAP. This adjustment has no effect on total shareholders equity. The effect of the income tax adjustments was to increase total tax expense by approximately $36 million and $5 million for the quarters ended March 31, 2005 and 2004, respectively, and to increase total shareholders equity as of December 31, 2004 by approximately $131 million.

Manufacturers Payments Received by ILFC. In the course of the ILFC review of its application of FAS 133 in connection with AIG s internal review, ILFC, in consultation with its independent registered public accounting firm, identified an error in its accounting for certain payments received from aircraft and engine manufacturers. Under arrangements with these manufacturers, in certain circumstances, the manufacturers established notional accounts for the benefit of ILFC to which amounts were credited by the manufacturers in connection with the purchase by and delivery to ILFC and the lease of aircraft. Amounts credited to the notional accounts were used at ILFC s direction to protect ILFC from certain events, including loss when airline customers of ILFC defaulted on lease payment obligations, to provide lease subsidies and other incentives to ILFC s airline customers in connection with leases of certain aircraft, and to reduce ILFC s cost of aircraft purchased.

Historically, ILFC recorded as revenues gross lease receipts from lessees who had received lease subsidies from the notional accounts and amounts paid directly to ILFC from the notional accounts in connection with lessee defaults. Amounts recorded as revenue at the time they were disbursed to ILFC or its lessees should have been recorded as a reduction of the purchase price of the aircraft at the time of delivery.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

Although ILFC restated its financial statements for the years 2000 through 2004 and for the quarter ended March 31, 2005 to correct its accounting for the payments from aircraft and engine manufacturers described above, AIG had previously considered these adjustments not to be sufficiently material to require correction by restatement in AIG s consolidated financial statements. The effect of the adjustments included in the Second Restatement relating to the manufacturers payments was to decrease other revenues and net income by approximately $31 million and $12 million and $18 million and $4 million, respectively, for the quarters ended March 31, 2005 and 2004. Additionally, total shareholders equity was reduced by approximately $320 million as of December 31, 2004.

Details of Additional Adjustments in the Second Restatement. The accounting adjustments relate primarily to the categories described below.

Asset Realization and Revenue Recognition Domestic Brokerage Group (DBG) Issues. During the remediation of material weaknesses in internal controls, AIG concluded that additional adjustments should be made to the value of certain DBG reserves and allowances for doubtful accounts, and revisions were necessary to the revenues previously recognized for certain long-tail environmental policies.

The Additional Adjustments to reflect the asset realization and revenue recognition revisions had the following effects on consolidated net income and total shareholders equity:

Increase (Decrease) For the Three Months Ended March 31, *(in millions)*	2005	2004
Consolidated Statement of Income:		
Net income	$ (1)	$

Increase (Decrease) at March 31, 2005 and at December 31, 2004, *(in millions)*	2005	2004
Consolidated Balance Sheet:		
Total shareholders equity	(536)	(534)

Accounting for Derivatives and Related Assets and Liabilities (FAS 133 Hedge Accounting). During the fourth quarter of 2005, AIG identified and corrected additional errors identified during the remediation of the previously disclosed material weaknesses in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133.

The Additional Adjustments to reflect appropriate GAAP accounting for these derivatives which also included related currency translation gains and losses, had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For the Three Months Ended March 31, *(in millions)*	2005	2004
Consolidated Statement of Income:		
Other revenues	$ 79	$ (26)
Net income	11	(14)

Increase (Decrease) at March 31, 2005 and at December 31, 2004, *(in millions)*	2005	2004

Consolidated Balance Sheet:		
Total shareholders equity	(17)	(65)

Income Tax Accounting. During the fourth quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The income tax adjustments had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For the Three Months Ended March 31, *(in millions)*	2005	2004
Consolidated Statement of Income:		
Income tax expense	$ (24)	$ 13
Net income	24	(13)

Increase (Decrease) at March 31, 2005 and at December 31, 2004, *(in millions)*	2005	2004
Consolidated Balance Sheet:		
Total shareholders equity	(29)	(98)

Statement of Cash Flows Classification of Certain Trading Securities. AIG identified and corrected the classification of certain trading securities activity from investing activities to operating activities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

The following tables present the previously reported and the restated Consolidated Balance Sheet, Consolidated Statement of Income, and Condensed Consolidated Statement of Cash Flows:

CONSOLIDATED BALANCE SHEET

(in millions) (unaudited)	March 31, 2005		
	As Previously Reported	As Restated	December 31, 2004
Assets:			
Investments and financial services assets:			
Fixed maturities:			
Bonds available for sale, at market value	**$ 350,400**	**$ 350,400**	$ 344,399
Bonds held to maturity, at amortized cost	**21,477**	**21,477**	18,294
Bond trading securities, at market value	**3,580**	**3,580**	2,984
Equity securities:			
Common stocks available for sale, at market value	**10,896**	**10,751**	9,772
Common stocks trading, at market value	**6,379**	**6,379**	5,894
Preferred stocks, at market value	**2,280**	**2,280**	2,040
Mortgage loans on real estate, net of allowance	**14,065**	**14,065**	13,146
Policy loans	**7,109**	**7,109**	7,035
Collateral and guaranteed loans, net of allowance	**2,261**	**3,309**	3,303
Financial services assets:			
Flight equipment primarily under operating leases, net of accumulated depreciation	**34,550**	**33,896**	32,130
Securities available for sale, at market value	**29,332**	**29,660**	31,225
Trading securities, at market value	**3,485**	**3,091**	2,746
Spot commodities	**98**	**654**	534
Unrealized gain on swaps, options and forward transactions	**20,149**	**20,149**	22,670
Trading assets	**1,372**	**1,507**	3,433
Securities purchased under agreements to resell, at contract value	**32,593**	**32,593**	26,272
Finance receivables, net of allowance	**24,929**	**24,929**	23,574
Securities lending collateral, at market value (which approximates cost)	**52,693**	**51,890**	49,169
Other invested assets	**24,532**	**25,608**	23,559
Short-term investments, at cost	**22,017**	**22,017**	16,102
Total investments and financial services assets	**664,197**	**665,344**	638,281
Cash	**2,361**	**2,361**	2,009
Investment income due and accrued	**5,653**	**5,609**	5,556
Premiums and insurance balances receivable, net of allowance	**15,724**	**16,222**	15,622
Reinsurance assets, net of allowance	**19,719**	**19,372**	19,613
Deferred policy acquisition costs	**31,536**	**31,625**	29,817
Investments in partially owned companies	**1,469**	**1,544**	1,495
Real estate and other fixed assets, net of accumulated depreciation	**6,190**	**6,190**	6,192
Separate and variable accounts	**57,417**	**57,417**	57,741
Goodwill	**8,577**	**8,532**	8,556
Income taxes receivable current			138
Other assets	**15,413**	**16,261**	16,125
Total assets	**$ 828,256**	**$ 830,477**	$ 801,145

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

CONSOLIDATED BALANCE SHEET *(continued)*

	March 31, 2005		
(in millions) (unaudited)	As Previously Reported	As Restated	December 31, 2004
Liabilities:			
Reserve for losses and loss expenses	**$ 64,061**	**$ 63,570**	$ 61,878
Reserve for unearned premiums	**23,764**	**24,088**	23,400
Future policy benefits for life and accident and health insurance contracts	**108,182**	**108,186**	104,740
Policyholders contract deposits	**225,860**	**225,690**	216,474
Other policyholders funds	**10,212**	**10,212**	10,280
Reserve for commissions, expenses and taxes	**4,783**	**4,772**	4,629
Insurance balances payable	**4,307**	**4,269**	3,661
Funds held by companies under reinsurance treaties	**3,137**	**3,137**	3,404
Income taxes payable:			
Current	**667**	**585**	
Deferred	**6,622**	**6,118**	6,588
Financial services liabilities:			
Borrowings under obligations of guaranteed investment agreements	**22,691**	**22,691**	18,919
Securities sold under agreements to repurchase, at contract value	**19,463**	**21,642**	23,581
Trading liabilities	**1,283**	**1,482**	2,503
Securities and spot commodities sold but not yet purchased, at market value	**4,881**	**5,586**	5,404
Unrealized loss on swaps, options and forward transactions	**14,751**	**12,866**	15,985
Trust deposits and deposits due to banks and other depositors	**4,612**	**4,612**	4,248
Commercial paper	**8,477**	**8,477**	6,724
Notes, bonds, loans and mortgages payable	**63,082**	**64,327**	61,296
Commercial paper	**3,479**	**3,479**	2,969
Notes, bonds, loans and mortgages payable	**5,557**	**5,558**	5,502
Liabilities connected to trust preferred stock	**1,489**	**1,489**	1,489
Separate and variable accounts	**57,417**	**57,417**	57,741
Minority interest	**4,960**	**5,208**	4,831
Securities lending payable	**52,693**	**52,693**	49,972
Other liabilities	**28,945**	**30,517**	25,055
Total liabilities	**745,375**	**748,671**	721,273
Preferred shareholders equity in subsidiary companies	**198**	**198**	199
Shareholders equity:			
Common stock	**6,878**	**6,878**	6,878
Additional paid-in capital	**1,991**	**2,104**	2,094
Retained earnings	**67,752**	**66,813**	63,468
Accumulated other comprehensive income (loss)	**8,374**	**8,125**	9,444
Treasury stock, at cost	**(2,312)**	**(2,312)**	(2,211)
Total shareholders equity	**82,683**	**81,608**	79,673
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 828,256**	**$ 830,477**	$ 801,145

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share data) (unaudited)	For the Three Months Ended March 31, 2005 As Previously Reported	For the Three Months Ended March 31, 2005 As Restated	For the Three Months Ended March 31, 2004
Revenues:			
Premiums and other considerations	**$ 17,682**	**$ 17,680**	$ 15,979
Net investment income	**5,292**	**5,332**	4,600
Realized capital gains (losses)	**88**	**137**	(86)
Other revenues	**4,050**	**4,053**	2,729
Total revenues	**27,112**	**27,202**	23,222
Benefits and expenses:			
Incurred policy losses and benefits	**14,865**	**14,873**	13,590
Insurance acquisition and other operating expenses	**6,804**	**6,680**	5,790
Total benefits and expenses	**21,669**	**21,553**	19,380
Income before income taxes, minority interest and cumulative effect of an accounting change	**5,443**	**5,649**	3,842
Income taxes (benefits):			
Current	**987**	**968**	1,345
Deferred	**626**	**738**	(215)
	1,613	**1,706**	1,130
Income before minority interest and cumulative effect of an accounting change	**3,830**	**3,943**	2,712
Minority interest	**(146)**	**(144)**	(70)
Income before cumulative effect of an accounting change	**3,684**	**3,799**	2,642
Cumulative effect of an accounting change, net of tax			(144)
Net income	**$ 3,684**	**$ 3,799**	$ 2,498
Earnings per common share:			
Basic			
Income before cumulative effect of an accounting change	**$ 1.42**	**$ 1.46**	$ 1.01
Cumulative effect of an accounting change, net of tax			(0.06)

Net income	**$**	**1.42**	**$**	**1.46**	$	0.95
Diluted						
Income before cumulative effect of an accounting change	**$**	**1.40**	**$**	**1.45**	$	1.00
Cumulative effect of an accounting change, net of tax						(0.06)
Net income	**$**	**1.40**	**$**	**1.45**	$	0.94
Dividends declared per common share	**$**	**0.175**	**$**	**0.175**	$	0.065
Average shares outstanding:						
Basic		**2,597**		**2,597**		2,610
Diluted		**2,624**		**2,624**		2,642

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions) (unaudited)	Three Months Ended March 31, 2005 As Previously Reported	Three Months Ended March 31, 2005 As Restated	Three Months Ended March 31, 2004
Net cash provided by (used in) operating activities	**$ 654**	**$ (434)**	$ 8,006
Net cash used in investing activities	**(18,801)**	**(20,118)**	(29,658)
Net cash provided by financing activities	**18,620**	**20,961**	22,348
Effect of exchange rate changes on cash	**(121)**	**(57)**	302
Change in cash	**352**	**352**	998
Cash at beginning of period	**2,009**	**2,009**	922
Cash at end of period	**$ 2,361**	**$ 2,361**	$ 1,920

The following two tables reflect the effect of the aforementioned adjustments on each component of revenue:

For the Three Months Ended March 31, 2005 *(in millions) (unaudited)*	**Premiums and Other Considerations**	**Net Investment Income**	**Realized Capital Gains (Losses)**	**Other Revenues**	**Total Revenues**
As Previously Reported	**$ 17,682**	**$ 5,292**	**$ 88**	**$ 4,050**	**$ 27,112**
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)		**4**	**103**	**(48)**	**59**
Manufacturers Payments Received by ILFC				**(31)**	**(31)**
All Other Adjustments Net		**53**		**3**	**56**
Total Initial Adjustments in the Second Restatement		**57**	**103**	**(76)**	**84**
Revenues, as Restated for the Initial Adjustments	**17,682**	**5,349**	**191**	**3,974**	**27,196**

Additional Adjustments in the Second Restatement:									
Asset Realization:									
Domestic Brokerage Group (DBG) Issues		**(1)**		**2**					**1**
All Other Adjustments Net		**(1)**		**(19)**		**(54)**		**79**	**5**
Total Additional Adjustments in the Second Restatement		**(2)**		**(17)**		**(54)**		**79**	**6**
Revenues, as Restated in the Second Restatement	**$**	**17,680**	**$**	**5,332**	**$**	**137**	**$**	**4,053**	**$ 27,202**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

For the Three Months Ended March 31, 2004 *(in millions) (unaudited)*	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	$ 16,139	$ 4,720	$ 83	$ 2,695	$ 23,637
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	97	65	(12)		150
Other Risk Transfer	(49)	(2)			(51)
Net Investment Income:					
Covered Calls		10	18		28
Synthetic Fuel Investment		(61)		(54)	(115)
Hedge Fund Accounting		13		(17)	(4)
Muni Tender Option Bond Program		21	8		29
DBG/AIG Capital Corporation Intercompany Dividend		(25)			(25)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	44	(99)	22	12	(21)
Conversion of Underwriting Losses to Capital Losses			73		73
Asset Realization:					
Other Than Temporary Declines			40		40
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			(81)	(80)	(161)
Foreign Currency Translation (FAS 52)			(74)		(74)
Life Settlements	(196)	(39)			(235)
Commutations	(40)				(40)
Dollar Roll Transactions			38		38
All Other Adjustments Net	(13)	(28)		147	106
Total Adjustments in the First Restatement	(157)	(145)	32	8	(262)
As Adjusted in the First Restatement	15,982	4,575	115	2,703	23,375
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			(195)	53	(142)
Manufacturers Payments Received by ILFC				(18)	(18)
All Other Adjustments Net	2	(2)		3	3
Total Initial Adjustments in the Second Restatement	2	(2)	(195)	38	(157)
Revenues, as Restated for the Initial Adjustments	15,984	4,573	(80)	2,741	23,218
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(7)	26			19
All Other Adjustments Net	2	1	(6)	(12)	(15)
Total Additional Adjustments in the Second Restatement	(5)	27	(6)	(12)	4
Revenues, as Restated in the Second Restatement	$ 15,979	$ 4,600	$ (86)	$ 2,729	$ 23,222

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

The following two tables reflect the effect of the aforementioned adjustments on each component of Benefits and Expenses:

For the Three Months Ended March 31, 2005 *(in millions) (unaudited)*	**Incurred Policy Losses and Benefits**	**Insurance Acquisition and Other Operating Expenses**	**Total Benefits and Expenses**
As Previously Reported	$ **14,865**	$ **6,804**	$ **21,669**
Initial Adjustments in the Second Restatement:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		**(65)**	**(65)**
Manufacturers Payments Received by ILFC		**(12)**	**(12)**
All Other Adjustments Net	**3**	**(49)**	**(46)**
Total Initial Adjustments in the Second Restatement	**3**	**(126)**	**(123)**
Benefits and Expenses, as Restated for the Initial Adjustments	**14,868**	**6,678**	**21,546**
Additional Adjustments in the Second Restatement:			
Asset Realization:			
Domestic Brokerage Group (DBG) Issues	**1**	**1**	**2**
All Other Adjustments Net	**4**	**1**	**5**
Total Additional Adjustments in the Second Restatement	**5**	**2**	**7**
Benefits and Expenses, as Restated in the Second Restatement	$ **14,873**	$ **6,680**	$ **21,553**

For the Three Months Ended March 31, 2004 *(in millions) (unaudited)*	**Incurred Policy Losses and Benefits**	**Insurance Acquisition and Other Operating Expenses**	**Total Benefits and Expenses**
As Previously Reported	$ 13,734	$ 5,612	$ 19,346
Adjustments in the First Restatement:			
Risk Transfer:			
Union Excess	168	12	180
Other Risk Transfer	(47)	(16)	(63)
Loss Reserves	60		60
Net Investment Income:			
DBG/AIG Capital Corporation Intercompany Dividend		(25)	(25)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	25	(68)	(43)
Conversion of Underwriting Losses to Capital Losses		(1)	(1)
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		47	47
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		(20)	(20)
Foreign Currency Translation (FAS 52)		2	2
Life Settlements	(180)		(180)
Deferred Acquisition Costs (DAC)	(74)	105	31
SICO Deferred Compensation		14	14
Commutations	(40)		(40)
All Other Adjustments Net	(49)	177	128

Total Adjustments in the First Restatement		(137)		227		90
As Adjusted in the First Restatement		13,597		5,839		19,436
Initial Adjustments in the Second Restatement:						
Accounting for Derivatives (FAS 133 Hedge Accounting)				(66)		(66)
Manufacturers Payments Received by ILFC				(11)		(11)
All Other Adjustments Net		2		1		3
Total Initial Adjustments in the Second Restatement		2		(76)		(74)
Benefits and Expenses, as Restated for the Initial Adjustments		13,599		5,763		19,362
Additional Adjustments in the Second Restatement:						
Asset Realization:						
Domestic Brokerage Group (DBG) Issues		(7)		26		19
All Other Adjustments Net		(2)		1		(1)
Total Additional Adjustments in the Second Restatement		(9)		27		18
Benefits and Expenses, as Restated in the Second Restatement	$	13,590	$	5,790	$	19,380

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

The following table reflects the effect of the aforementioned adjustments on income taxes:

For the Three Months Ended March 31, *(in millions) (unaudited)*	**2005**	2004
Income Taxes, as Previously Reported	**$ 1,613**	$ 1,356
Adjustments in the First Restatement:		
Risk Transfer:		
Union Excess		(11)
Other Risk Transfer		2
Loss Reserves		(21)
Net Investment Income:		
Covered Calls		10
Synthetic Fuel Investment		(115)
Top Level Adjustments and Other Directed Entries (other than loss reserves)		8
Asset Realization:		
Domestic Brokerage Group (DBG) Issues		5
Other Than Temporary Declines		14
Other GAAP Corrections:		
Accounting for Derivatives (FAS 133 Hedge Accounting)		(49)
Accounting for Deferred Taxes		(4)
Foreign Currency Translation (FAS 52)		(26)
Life Settlements		(20)
Deferred Acquisition Costs (DAC)		(9)
All Other Adjustments Net		29
Total Adjustments in the First Restatement		(187)
Income Taxes, as Adjusted in the First Restatement	**1,613**	1,169
Initial Adjustments in the Second Restatement:		
Income Tax Accounting	**36**	5
All Other Adjustments Net	**65**	(51)
Total Initial Adjustments in the Second Restatement	**101**	(46)
Income Taxes, as Restated for the Initial Adjustments	**1,714**	1,123
Additional Adjustments in the Second Restatement	**(8)**	7
Income Taxes, as Restated in the Second Restatement	**$ 1,706**	$ 1,130

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3. Segment Information

The following table summarizes the operations by major operating segment for the three months ended March 31, 2005 and 2004:

Operating Segments *(in millions) (unaudited)*		**2005 (Restated)**	2004 (Restated)
Revenues[a]:			
	General Insurance[b]	**$ 11,219**	$ 10,097
	Life Insurance & Retirement Services[c]	**11,775**	10,485
	Financial Services[d]	**2,436**	1,814
	Asset Management[e]	**1,377**	1,050
	Other	**395**	(224)
Consolidated		**$ 27,202**	$ 23,222
Operating income[a][f]:			
	General Insurance	**$ 1,642**	$ 1,442
	Life Insurance & Retirement Services	**2,181**	1,749
	Financial Services	**1,045**	584
	Asset Management	**590**	436
	Other[g]	**191**	(369)
Consolidated		**$ 5,649**	$ 3,842

(a) Revenues and operating income reflect changes in market or estimated fair value associated with hedging activities that do not qualify for hedge accounting pursuant to FAS 133.

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

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

(d) Represents interest, lease and finance charges.

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

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

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

The following table summarizes AIG s General Insurance operations by major internal reporting unit for the three months ended March 31, 2005 and 2004:

General Insurance *(in millions) (unaudited)*	**2005 (Restated)**	2004 (Restated)
Revenues:		
Domestic Brokerage Group	**$ 6,289**	$ 5,531
Transatlantic	**982**	973
Personal Lines	**1,171**	1,088
Mortgage Guaranty	**169**	162
Foreign General	**2,602**	2,337
Reclassifications and Eliminations	**6**	6
Total General Insurance	**$ 11,219**	$ 10,097

Operating Income:				
Domestic Brokerage Group	**$**	**713***	$	556
Transatlantic		**114**		117
Personal Lines		**109**		96
Mortgage Guaranty		**104**		96
Foreign General		**596**		571
Reclassifications and Eliminations		**6**		6
Total General Insurance	**$**	**1,642**	$	1,442

** Includes $118 million of additional losses incurred resulting from increased labor and material costs related to the 2004 Florida hurricanes.*

The following table summarizes AIG s Life Insurance & Retirement Services operations by major internal reporting unit for the three months ended March 31, 2005 and 2004:

Life Insurance & Retirement Services *(in millions) (unaudited)*		**2005 (Restated)**		2004 (Restated)
Revenues[(a)]:				
Foreign:				
AIA, AIRCO and Nan Shan[(b)]	**$**	**4,066**	$	3,775
ALICO, AIG Star Life and AIG Edison Life[(c)]		**3,519**		2,765
Philamlife and Other		**130**		117
Domestic:				
AGLA and AG Life[(d)]		**2,388**		2,122
VALIC, AIG Annuity and AIG SunAmerica[(e)]		**1,672**		1,706
Total Life Insurance & Retirement Services	**$**	**11,775**	$	10,485
Operating Income:				
Foreign:				
AIA, AIRCO and Nan Shan[(b)]	**$**	**588**	$	527
ALICO, AIG Star Life and AIG Edison Life[(c)]		**596**		280
Philamlife and Other		**16**		28
Domestic:				
AGLA and AG Life[(d)]		**466**		283
VALIC, AIG Annuity and AIG SunAmerica[(e)]		**515**		631
Total Life Insurance & Retirement Services	**$**	**2,181**	$	1,749

(a) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).
(b) Represents the operations of American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA), American International Reinsurance Company, Ltd. (AIRCO), and Nan Shan Life Insurance Company, Ltd. (Nan Shan).
(c) Represents the operations of American Life Insurance Company (ALICO), AIG Star Life Insurance Co., Ltd. (AIG Star Life), and AIG Edison Life Insurance Company (AIG Edison Life).
(d) AG Life includes the life operations of AIG Life Insurance Company and American International Life Assurance Company of New York. Also includes the operations of American General Life and Accident Insurance Company (AGLA).
(e) 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. Also includes the operations of The Variable Annuity Life Insurance Company (VALIC) and AIG Annuity Insurance Company (AIG Annuity).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

3. Segment Information *(continued)*

The following table summarizes AIG s Financial Services operations by major internal reporting unit for the three months ended March 31, 2005 and 2004:

Financial Services *(in millions) (unaudited)*		**2005 (Restated)**		2004 (Restated)
Revenues[(a)]:				
Aircraft Finance[(b)]	**$**	**827**	$	734
Capital Markets[(c)(d)]		**756**		361
Consumer Finance[(e)]		**833**		693
Other		**20**		26
Total Financial Services	**$**	**2,436**	$	1,814
Operating income[(a)]:				
Aircraft Finance	**$**	**187**	$	172
Capital Markets[(d)]		**620**		214
Consumer Finance		**231**		183
Other		**7**		15
Total Financial Services	**$**	**1,045**	$	584

(a) Includes the effect of hedging activities that do not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the first three months of 2005 and 2004, the effect was $15 million and $20 million, respectively, in operating income for Aircraft Finance and $468 million and $83 million in both revenues and operating income for Capital Markets.

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

(c) Revenues, shown net of interest expense, are primarily from hedging activities that do not qualify for hedge accounting treatment under FAS 133 described in (a) above.

(d) Certain transactions entered into by AIGFP generate tax credits and benefits which are shown in the income tax line on the consolidated statement of income. The amount of tax credits and benefits for the first three months of March 31, 2005 and 2004 are $19 million, and $35 million, respectively.

(e) Revenues were primarily finance charges.

The following table summarizes AIG s Asset Management revenues and operating income for the three months ended March 31, 2005 and 2004:

Asset Management *(in millions) (unaudited)*		**2005 (Restated)**		2004 (Restated)
Revenues:				
Guaranteed investment contracts	**$**	**896**	$	737
Institutional Asset Management		**319**		187
Brokerage Services and Mutual Funds		**63**		61
Other		**99**		65
Total Asset Management	**$**	**1,377**	$	1,050
Operating income:				
Guaranteed investment contracts[(a)]	**$**	**319**	$	295
Institutional Asset Management[(b)]		**161**		59
Brokerage Services and Mutual Funds		**13**		20

Other		**97**		62
Total Asset Management	**$**	**590**	$	436

(a) The effect of hedging activities that do not qualify for hedge accounting treatment under FAS 133 was $62 million and $64 million for the first quarter of 2005 and 2004, respectively.

(b) Includes the results of certain AIG managed private equity and real estate funds that are consolidated effective December 31, 2003 pursuant to FIN46R, Consolidation of Variable Interest Entities . For the first three months of 2005 and 2004, operating income includes $75 million and $4 million, respectively, of third-party limited partner earnings offset in Minority interest expense.

4. 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:

Three Months Ended March 31, *(in millions, except per share data) (unaudited)*		**2005** **(Restated)**		2004 (Restated)
Numerator for basic earnings per share:				
Income before cumulative effect of an accounting change	**$**	**3,799**	$	2,642
Cumulative effect of an accounting change, net of tax				(144)
Net income applicable to common stock	**$**	**3,799**	$	2,498
Denominator for basic earnings per share:				
Average shares outstanding used in the computation of per share earnings:				
Common stock issued		**2,752**		2,752
Common stock in treasury		**(155)**		(142)
Average shares outstanding basic		**2,597**		2,610

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

4. Earnings Per Share *(continued)*

Three Months Ended March 31, *(in millions, except per share data) (unaudited)*		**2005 (Restated)**		2004 (Restated)
Numerator for diluted earnings per share:				
Income before cumulative effect of an accounting change	**$**	**3,799**	$	2,642
Cumulative effect of an accounting change, net of tax				(144)
Net income applicable to common stock		**3,799**		2,498
Interest on contingently convertible bonds, net of tax [(a)]		**3**		3
Adjusted net income applicable to common stock[(a)]	**$**	**3,802**	$	2,501
Denominator for diluted earnings per share:				
Average shares outstanding		**2,597**		2,610
Incremental shares from potential common stock:				
Average number of shares arising from outstanding employee stock plans (treasury stock method)[(b)]		**18**		23
Contingently convertible bonds[(a)]		**9**		9
Adjusted average shares outstanding diluted[(a)]		**2,624**		2,642
Earnings per share:				
Basic:				
Income before cumulative effect of an accounting change	**$**	**1.46**	$	1.01
Cumulative effect of an accounting change, net of tax				(0.06)
Net income	**$**	**1.46**	$	0.95
Diluted:				
Income before cumulative effect of an accounting change	**$**	**1.45**	$	1.00
Cumulative effect of an accounting change, net of tax				(0.06)
Net income	**$**	**1.45**	$	0.94

(a) Assumes conversion of contingently convertible bonds due to the adoption of EITF Issue No. 04-8 Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share.

(b) Certain shares arising from 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 22 million and 8 million for the first three months of 2005 and 2004, 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 effect 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 effect 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 both the first three months of 2005 and 2004 was less than $0.005 per share.

The quarterly dividend rate per common share, commencing with the dividend paid March 18, 2005 is $0.125.

5. Benefits Provided by Starr International Company, Inc.

Starr International Company, Inc. (SICO) has provided a series of two-year Deferred Compensation Profit Participation Plans (SICO Plans) to certain AIG employees. The SICO Plans came into being in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset is AIG common stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG.

Participation in the SICO Plans by any person, and the amount of such participation, has been at the sole discretion of SICO s Board of Directors. None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting entry to additional paid-in capital reflecting amounts deemed contributed by SICO. The SICO Plans provide 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 currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant s voluntary termination of employment with AIG prior to normal retirement age. In addition, SICO s Board of Directors currently may elect to pay a participant cash in lieu of shares of AIG common stock. See also Note 7(f) herein.

SICO has also provided certain personal benefits to AIG employees. The cost of such benefits, primarily attributable to personal use of corporate aircraft, has not been included in compensation expense.

Compensation expense with respect to the SICO Plans aggregated $7 million and $14 million for the first three months of 2005 and 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

6. Ownership and Transactions With Related Parties

(a) Ownership: The directors and officers of AIG, together with C.V. Starr & Co., Inc. (Starr), a private holding company, The Starr Foundation, and SICO, a private holding company, owned or otherwise controlled approximately 19 percent of the voting stock of AIG at March 31, 2005. Five directors of AIG served as directors of Starr and SICO as of March 31, 2005 and December 31, 2004. As of April 30, 2005, no director of AIG serving as an executive officer of AIG served as a director of Starr or SICO.

(b) Transactions with Related Parties: During the ordinary course of business, AIG and its subsidiaries pay commissions to Starr and its subsidiaries for the production and management of insurance business. There are no significant receivables from/payables to related parties at March 31, 2005.

7. Commitments and Contingent Liabilities

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.

(a) 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 s Capital Markets operations, comprised of AIG Financial Products Corp. and AIG Trading Group Inc. and their subsidiaries (AIGFP). (See also Note 20 in AIG s 2005 Annual Report on Form 10-K.)

(b) Securities sold, but not yet purchased and spot commodities sold but not yet purchased represent obligations of AIGFP to deliver specified securities and spot commodities at their contracted prices. AIGFP records 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 arising from transactions entered into by AIGFP. Revenues for the three months ended March 31, 2005 and 2004 from Capital Markets operations were $756 million and $361 million, respectively.

(c) At March 31, 2005, ILFC had committed to purchase 322 new and used aircraft deliverable from 2005 through 2010 at an estimated aggregate purchase price of $19.5 billion and had options to purchase 6 new aircraft deliverable through 2007 at an estimated aggregate purchase price of $361 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.

(d) AIG and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. The recent trend of increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation.

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 (hereinafter collectively referred to as environmental claims) and indemnity claims asserting injuries from asbestos. Estimation of asbestos and environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1984 and prior years, cannot be estimated by conventional reserving techniques. Asbestos and environmental claims development is affected by factors such as inconsistent court resolutions, the broadening of the intent of policies and scope of coverage and increasing number of new claims. AIG, together with other industry members, has and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue in the future to expand the intent of the policies and the scope of the coverage, as they have in the past, additional liabilities would emerge for amounts in excess of reserves held. This emergence cannot now be reasonably estimated, but could have a material effect on AIG s future operating results. The reserves carried for these claims at March 31, 2005 ($3.48 billion gross; $1.49 billion net) are believed to be adequate as these reserves are based on known facts and current law.

(e) 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.

(f) On June 27, 2005, AIG entered into agreements pursuant to which AIG agrees, subject to certain conditions, to (i) make any payment that is not promptly paid with respect to the benefits accrued by certain employees of AIG and its subsidiaries under the SICO Plans (as defined in Note 5) and (ii) make any payment to the extent not promptly paid by Starr with respect to amounts that become payable to certain

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

7. Commitments and Contingent Liabilities *(continued)*

employees of AIG and its subsidiaries who are also stockholders of Starr after the giving of a notice of repurchase or redemption under Starr s organizational documents. In January 2006, Starr announced that it had completed its tender offer to purchase interests in Starr and that all eligible shareholders had tendered their shares. As a result of completion of the tender offer, no executive currently holds any Starr interests.

(g) AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In their complaint, plaintiffs request compensatory damages for the 1999 class in the amount of $3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression and have asserted, *inter alia*, that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement. AIG and its subsidiaries further assert that the current claims are barred by the statute of limitations and that plaintiffs assertions that the statute was tolled cannot stand against the public disclosure of the excess coverage. Plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations. On January 28, 2005, the Alabama trial court determined that one of the current actions may proceed as a class action on behalf of the 1999 classes that were allegedly defrauded by the settlement. AIG, its subsidiaries, and Caremark are seeking appellate relief from the Alabama Supreme Court. AIG cannot now estimate either the likelihood of its prevailing in these actions or the potential damages in the event liability is determined.

(h) On December 30, 2004, an arbitration panel issued its ruling in connection with a 1998 workers compensation quota share reinsurance agreement under which Superior National Insurance Company, among others, was reinsured by The United States Life Insurance Company in the City of New York (USLIFE), a subsidiary of American General Corporation. In its 2-1 ruling the arbitration panel refused to rescind the contract as requested by USLIFE. Instead, the panel reformed the contract to reduce USLIFE s participation by ten percent. USLIFE disagrees with the ruling and is pursuing all appropriate legal remedies. USLIFE has certain reinsurance recoverables in connection with the contract and the arbitration ruling established a second phase of arbitration in which USLIFE will present its challenges to cessions to the contract.

AIG recorded approximately a $178 million pre-tax charge in the fourth quarter of 2004 related to this matter and holds a reserve of approximately $349 million as of March 31, 2005.

(i) Regulators from several states have commenced investigations into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. 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 may be made.

In February 2006, AIG reached a resolution of claims and matters under investigation with the United States Department of Justice (DOJ), the Securities and Exchange Commission (SEC), the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). The settlements resolved outstanding litigation filed by the SEC, NYAG and DOI against AIG and concluded negotiations with these authorities and the DOJ in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. The 2005 financial statements include a fourth quarter after-tax charge of $1.15 billion to record the settlements.

As a result of these settlements, AIG made payments totaling approximately $1.64 billion, $225 million of which represented fines and penalties. A substantial portion of the money will be available to resolve claims asserted in various regulatory and civil proceedings, including shareholder lawsuits.

Also, as part of the settlements, AIG has agreed to retain for a period of three years an independent consultant who will conduct a review that will include the adequacy of AIG s internal control over financial reporting and the remediation plan that AIG has implemented as a result of its own internal review.

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 has cooperated, and will continue to cooperate, in producing documents and other information in response to the subpoenas.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

7. Commitments and Contingent Liabilities *(continued)*

A number of lawsuits have been filed regarding the subject matter of the investigations of insurance brokerage practices, including derivative actions, individual actions and class actions under the federal securities laws, Racketeer Influenced and Corrupt Organizations Act (RICO), Employee Retirement Income Security Act (ERISA) and state common and corporate laws in both federal and state courts, including the United States District Court for the Southern District of New York (Southern District of New York), in the Commonwealth of Massachusetts Superior Court and in Delaware Chancery Court. All of these actions generally allege that AIG and its subsidiaries violated the law by allegedly concealing a scheme to rig bids and steer business between insurance companies and insurance brokers.

Since October 19, 2004, AIG or its subsidiaries have been named as a defendant in fifteen complaints that were filed in federal court and two that were originally filed in state court (Massachusetts and Florida) and removed to federal court. These cases generally allege that AIG and its subsidiaries violated federal and various state antitrust laws, as well as federal RICO laws, various state deceptive and unfair practice laws and certain state laws governing fiduciary duties. The alleged basis of these claims is that there was a conspiracy between insurance companies and insurance brokers with regard to the use of contingent commission agreements, bidding practices, and other broker-related conduct concerning coverage in certain sectors of the insurance industry. The Judicial Panel on Multidistrict Litigation entered an order on February 17, 2005, consolidating most of these cases and transferring them to the United States District Court for the District of New Jersey (District of New Jersey). The remainder of these cases have been transferred to the District of New Jersey. On August 15, 2005, the plaintiffs in the multidistrict litigation filed a Corrected First Consolidated Amended Commercial Class Action Complaint, which, in addition to the previously named AIG defendants, names new AIG subsidiaries as defendants. Also on August 15, 2005, AIG and two subsidiaries were named as defendants in a Corrected First Consolidated Amended Employee Benefits Class Action Complaint filed in the District of New Jersey, which asserts similar claims with respect to employee benefits insurance and a claim under ERISA on behalf of putative classes of employers and employees. On November 29, 2005, the AIG defendants, along with other insurer defendants and the broker defendants filed motions to dismiss both the Commercial and Employee Benefits Complaints. Plaintiffs have filed a motion for class certification in the consolidated action. In addition, complaints were filed against AIG and several of its subsidiaries in Massachusetts and Florida state courts, which have both been stayed. In the Florida action, the plaintiff has filed a petition for a writ of certiorari with the District Court of Appeals of the State of Florida, Fourth District with respect to the stay order. On February 9, 2006, a complaint against AIG and several of its subsidiaries was filed in Texas state court, making claims similar to those in the federal cases above.

In April and May 2005, amended complaints were filed in the consolidated derivative and securities cases, as well as in one of the ERISA lawsuits, pending in the Southern District of New York adding allegations concerning AIG s accounting treatment for non-traditional insurance products. In September 2005, a second amended complaint was filed in the consolidated securities cases adding allegations concerning AIG s First Restatement. Also in September 2005, a new securities action complaint was filed in the Southern District of New York, asserting claims premised on the same allegations made in the consolidated cases. Motions to dismiss have been filed in the securities actions. In September 2005, a consolidated complaint was filed in the ERISA case pending in the Southern District of New York. Motions to dismiss have been filed in that ERISA case. Also in April 2005, new derivative actions were filed in Delaware Chancery Court, and in July and August 2005, two new derivative actions were filed in the Southern District of New York asserting claims duplicative of the claims made in the consolidated derivative action.

In July 2005, a second amended complaint was filed in the consolidated derivative case in the Southern District of New York, expanding upon accounting-related allegations, based upon the First Restatement and, in August 2005, an amended consolidated complaint was filed. In June 2005, the derivative cases in Delaware were consolidated. AIG s Board of Directors has appointed a special committee of independent directors to review the matters asserted in the derivative complaints. The courts have approved agreements staying the derivative cases pending in the Southern District of New York and in Delaware Chancery Court while the special committee of independent directors performs its work. In September 2005, a shareholder filed suit in Delaware Chancery Court seeking documents relating to some of the allegations made in the derivative suits. AIG filed a motion to dismiss in October 2005.

In late 2002, a derivative action was filed in Delaware Chancery Court in connection with AIG s transactions with certain entities affiliated with Starr and SICO. In May 2005, the plaintiff filed an amended complaint which adds additional claims premised on allegations relating to insurance brokerage practices and AIG s non-traditional insurance products. Plaintiffs in that case have agreed to dismiss newly added allegations unrelated to transactions with entities affiliated with Starr and SICO without prejudice to pursuit of these claims in the separate derivative actions described above. On February 16, 2006, the Delaware Chancery Court

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

7. Commitments and Contingent Liabilities *(continued)*

entered an order dismissing the litigation with prejudice with respect to AIG s outside directors and dismissing the claims against the remaining AIG defendants without prejudice.

AIG cannot predict the outcome of the matters described above or estimate the 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 reporting period.

(j) On July 8, 2005, SICO filed a complaint against AIG in the United States District Court for the Southern District of New York. The complaint alleges that AIG is in the possession of items, including artwork, which SICO claims it owns, and seeks an order causing AIG to release those items as well as actual, consequential, punitive and exemplary damages. On September 27, 2005, AIG filed its answer to SICO s complaint denying SICO s allegations and asserting counter-claims for breach of contract, unjust enrichment, conversion and breach of fiduciary duty relating to SICO s breach of its commitment to use its AIG shares for the benefit of AIG and its employees. On October 17, 2005, SICO replied to AIG s counter-claims and additionally sought a judgment declaring that SICO is neither a control person nor an affiliate of AIG for purposes of Schedule 13D under the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 144 under the Securities Act of 1933, as amended (the Securities Act), respectively. AIG responded to the SICO claims and sought a dismissal of SICO s claims on November 7, 2005.

(k) AIG subsidiaries own interests in certain limited liability companies (LLCs) which invested in six coal synthetic fuel production facilities. The sale of coal synthetic fuel produced by these six facilities generates income tax credits. One of the conditions a taxpayer must meet to qualify for coal synfuel tax credits is that the synfuel production facility must have been placed in service before July 1, 1998. On July 1, 2005, Internal Revenue Service (IRS) field agents issued notices of proposed adjustment to the LLCs proposing to disallow all of the credits taken by the LLCs during the years 2001 through 2003. The IRS field agents subsequently conceded that one of the facilities was timely placed in service, but they contend that none of the other underlying production facilities were placed in service by the statutory deadline. On October 3, 2005, IRS field agents issued 60-day letters to the LLCs proposing to disallow the tax credits taken with respect to synfuel sales by the remaining five production facilities. By letters dated February 17, 2006, the IRS field agents have advised the LLCs that they have, after further review, concluded that all six production facilities were placed in service before July 1, 1998 and that they will withdraw the 60-day letters issued to the LLCs.

Tax credits generated from the production and sale of synthetic fuel under section 29 of the Internal Revenue Code are subject to an annual phase-out provision that is based on the average wellhead price of domestic crude oil. The price range within which the tax credits are phased-out was originally established in 1980 and is adjusted annually for inflation. Depending on the price of domestic crude oil for a particular year, all or a portion of the tax credits generated in that year might be eliminated. Although AIG cannot predict the future price of domestic crude oil for the years 2006 and 2007 (the final year the tax credits are available), AIG does not expect the phase-out provision to affect tax credits generated in 2005. AIG has also entered into hedges designed to mitigate a portion of its future exposure to a sustained high price of oil. However, no assurance can be given as to the effectiveness of the hedging in actually reducing such exposure or whether such hedging will continue.

(l) AIG understands that some of its employees have received Wells notices in connection with previously disclosed SEC investigations of certain of AIG s transactions or accounting practices. Under SEC procedures, a Wells notice is an indication that the SEC staff has made a preliminary decision to recommend enforcement action that provides recipients with an opportunity to respond to the SEC staff before a formal recommendation is finalized. AIG anticipates that additional current and former employees could receive similar notices in the future as the regulatory investigations proceed.

(m) In August 2005, the Bureau of Labor Insurance in Taiwan began to levy a monthly administrative penalty against Nan Shan for not providing its agency leaders a choice between alternative government pension plans. Nan Shan has reached an agreement with the agency union and the ultimate liability is not material to AIG s consolidated financial condition or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

8. Employee Benefits

The following table presents the components of the net periodic benefit costs with respect to pensions and other benefits for the three months ended March 31, 2005 and 2004:

	Pensions			Postretirement		
(in millions)	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
2005						
Components of net period benefit cost:						
Service cost	$ 19	$ 26	$ 45	$ 1	$ 2	$ 3
Interest cost	8	37	45		4	4
Expected return on assets	(5)	(41)	(46)			
Amortization of prior service cost	(3)	(1)	(4)		(2)	(2)
FAS 88 loss due to settlements	1		1			
Recognized actuarial loss	6	16	22		1	1
Net period benefit cost	$ 26	$ 37	$ 63	$ 1	$ 5	$ 6
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			(1)	(1)
Amortization of transitional liability	1		1			
Recognized actuarial loss	5	14	19			
Net period benefit cost	$ 23	$ 35	$ 58	$	$ 4	$ 4

9. Recent Accounting Standards

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 No. 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, but the disclosures remain effective. This FSP, retitled FSP FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, replaces the measurement and recognition guidance set forth in Issue No. 03-1 and codifies certain existing guidance on impairment. Adoption of FSP FAS 115-1 is not expected to have a material effect on AIG s financial condition or results of operations.

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 adoption of Issue No. 04-8 did not have a material effect on AIG s

diluted EPS.

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (FAS 123R). FAS 123R and its related interpretive guidance replaces FAS No. 123, Accounting for Stock-Based Compensation (FAS 123), and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. FAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. On January 1, 2003, AIG adopted the recognition provisions of FAS 123. In April 2005, the Securities and Exchange Commission (SEC) delayed the effective date for FAS 123R until the first fiscal year beginning after June 15, 2005. As a result, AIG expects to adopt the provisions of the revised FAS 123R and its related interpretive guidance in the first quarter of 2006. For its service-based awards (1999 Stock Option Plan, 2002 Stock Incentive Plan, and 1999 Employee Stock Purchase Plan), AIG recognizes compensation on a straight-line basis over the scheduled vesting period. Upon adoption of FAS 123R, AIG will recognize compensation expense to the scheduled retirement date for employees near retirement. AIG does not expect the effect of this change to be material to AIG s results of operations. Consistent with the requirements of FAS 123R, AIG will recognize the unvested portion of its APB 25 awards as compensation expense over the remaining vesting period.

In December 2005 and January 2006, Starr made tender offers to AIG employees holding Starr common and preferred stock. In conjunction with AIG s adoption of FAS 123R, Starr is considered to be an economic interest holder in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

9. Recent Accounting Standards *(continued)*

AIG. As a result, AIG expects to include the compensation expense related to the 2006 tender offer in its consolidated financial statements for the first quarter of 2006.

AIG is currently assessing the effect of FAS 123R and believes the effect will not be material to AIG s financial condition or results of operations.

On December 16, 2004, the FASB issued Statement No. 153, Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29 (FAS 153). FAS 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions. The amendments made by FAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, APB Opinion No. 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The provisions in FAS 153 are effective for nonmonetary asset exchanges beginning July 1, 2005. The adoption of FAS 153 did not have a material effect on AIG s financial condition or results of operations.

In March 2005, FASB issued FSP FIN46R-5 Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FSP FIN46R-5) to address whether a reporting enterprise has an implicit variable interest in a variable interest entity (VIE) or potential VIE when specific conditions exist. Although implicit variable interests are mentioned in FIN46(R), the term is not defined and only one example is provided. This FSP FIN46R-5 offers additional guidance, stating that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity s net assets exclusive of variable interests. An implicit variable interest acts the same as an explicit variable interest except it involves the absorbing and/or receiving of variability indirectly from the entity (rather than directly). The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. FSP FIN46R-5 is effective for the second quarter of 2005. The adoption of FSP FIN46R-5 did not have a material effect on AIG s financial condition or results of operations.

On June 1, 2005, the FASB issued Statement No. 154, Accounting Changes and Error Corrections (FAS 154). FAS 154 replaces APB Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements. FAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. FAS 154 also provides that a correction of errors in previously issued financial statements should be termed a restatement. The new standard is effective for accounting changes and correction of errors beginning January 1, 2006.

At the June 2005 meeting, the EITF reached a consensus with respect to Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights . The Issue addresses what rights held by the limited partner(s) preclude consolidation in circumstances in which the sole general partner would consolidate the limited partnership in accordance with generally accepted accounting principles absent the existence of the rights held by the limited partner(s). Based on that consensus, the EITF also agreed to amend the consensus in Issue No. 96-16, Investor s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholders Have Certain Approval or Veto Rights. The guidance in this Issue is effective after June 29, 2005 for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified. For general partners in all other limited partnerships, the guidance in this Issue is effective beginning January 1, 2006. The effect of the adoption of this EITF Issue on existing partnerships that were modified and new partnerships entered into after June 29, 2005, was not material to AIG s financial condition or results of operations. For all other partnerships, AIG is currently assessing the effect of adopting this EITF Issue.

On June 29, 2005, FASB issued Statement 133 Implementation Issue No. B38, Embedded Derivatives: Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through Exercise of an Embedded Put Option or Call Option. This implementation guidance relates to the potential settlement of the debtor s obligation to the creditor that would occur upon exercise of the put option or call option, which meets the net settlement criterion in FAS 133 paragraph 9(a). The effective date of the implementation guidance is January 1, 2006. AIG is currently assessing the effect of implementing this guidance.

On June 29, 2005, FASB issued Statement 133 Implementation Issue No. B39, Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor. The conditions in FAS 133 paragraph 13(b) do not apply to an embedded call option in a hybrid instrument containing a debt host contract if the right to accelerate the settlement of the debt can be exercised only by the debtor (issuer/ borrower). This guidance does not apply to other embedded

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9. Recent Accounting Standards *(continued)*

derivative features that may be present in the same hybrid instrument. The effective date of the implementation guidance is January 1, 2006. AIG is currently assessing the effect of implementing this guidance.

On September 19, 2005, FASB issued Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts. SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB Statement No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. The SOP defines an internal replacement as a modification in product benefits, features, rights, or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. The effective date of the implementation guidance is January 1, 2007. AIG is currently assessing the effect of implementing this guidance.

On February 16, 2006, the FASB issued FAS No. 155, Accounting for Certain Hybrid Financial Instruments (FAS 155), an amendment of FAS 140 and FAS 133. FAS 155 permits the Company to elect to measure any hybrid financial instrument at fair value (with changes in fair value recognized in earnings) if the hybrid instrument contains an embedded derivative that would otherwise be required to be bifurcated and accounted for separately under FAS 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irrevocable. FAS 155 will be effective for all instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of AIG s fiscal year that begins after September 15, 2006, with earlier adoption permitted as of the beginning of 2006, provided that financial statements for any interim period of that fiscal year have not been issued. AIG has elected to early adopt FAS 155 as of January 1, 2006. This change in accounting will not have a material effect on AIG s results of operations or financial condition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

10. 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

March 31, 2005 (Restated) *(in millions) (unaudited)*	**American International Group, Inc. Guarantor**	**AGC Issuer**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Assets:					
Invested assets	**$ 764**	**$**	**$ 677,335**	**$ (12,755)**	**$ 665,344**
Cash	**150**		**2,211**		**2,361**
Carrying value of subsidiaries and partially owned companies, at equity	**82,963**	**25,889**	**15,846**	**(123,154)**	**1,544**
Other assets	**2,811**	**2,691**	**159,978**	**(4,252)**	**161,228**
Total assets	**$ 86,688**	**$ 28,580**	**$ 855,370**	**$ (140,161)**	**$ 830,477**
Liabilities:					
Insurance liabilities	**$ 391**	**$**	**$ 443,604**	**$ (71)**	**$ 443,924**
Debt	**3,650**	**2,483**	**112,158**	**(12,270)**	**106,021**
Other liabilities	**1,039**	**4,264**	**198,234**	**(4,811)**	**198,726**
Total liabilities	**5,080**	**6,747**	**753,996**	**(17,152)**	**748,671**
Preferred shareholders equity in subsidiary companies			**198**		**198**
Total shareholders equity	**81,608**	**21,833**	**101,176**	**(123,009)**	**81,608**
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 86,688**	**$ 28,580**	**$ 855,370**	**$ (140,161)**	**$ 830,477**

December 31, 2004 *(in millions) (unaudited)*	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	$ 1,027	$	$ 650,238	$ (12,984)	$ 638,281
Cash	17		1,992		2,009
Carrying value of subsidiaries and partially owned companies, at equity	80,966	26,179	12,763	(118,413)	1,495
Other assets	2,786	2,546	154,417	(389)	159,360

Total assets	$ 84,796	$ 28,725	$ 819,410	$ (131,786)	$ 801,145
Liabilities:					
Insurance liabilities	$ 405	$	$ 428,130	$ (69)	$ 428,466
Debt	3,647	2,482	103,027	(12,257)	96,899
Other liabilities	1,071	4,076	191,967	(1,206)	195,908
Total liabilities	5,123	6,558	723,124	(13,532)	721,273
Preferred shareholders equity in subsidiary companies			199		199
Total shareholders equity	79,673	22,167	96,087	(118,254)	79,673
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 84,796	$ 28,725	$ 819,410	$ (131,786)	$ 801,145

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2005 (Restated) *(in millions) (unaudited)*	**American International Group, Inc. Guarantor**	**AGC Issuer**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Operating income	**$ (10)***(a)*	**$ (36)** *(b)*	**$ 5,695***(c)*	**$**	**$ 5,649***(d)*
Equity in undistributed net income of consolidated subsidiaries	**3,646**	**701**		**(4,347)**	
Dividend income from consolidated subsidiaries	**271**			**(271)**	
Income taxes (benefits)	**108**	**(12)**	**1,610**		**1,706**
Minority interest			**(144)**		**(144)**
Net income (loss)	**$ 3,799**	**$ 677**	**$ 3,941**	**$ (4,618)**	**$ 3,799**

Three Months Ended March 31, 2004 (Restated) *(in millions) (unaudited)*	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	$ 88*(e)*	$ (30) *(f)*	$ 3,784*(g)*	$	$ 3,842*(h)*
Equity in undistributed net income of consolidated subsidiaries	2,259	578		(2,837)	
Dividend income from consolidated subsidiaries	322	24		(346)	
Income taxes (benefits)	171	(10)	969		1,130
Minority interest			(70)		(70)
Cumulative effect of an accounting change, net of tax			(144)		(144)
Net income (loss)	$ 2,498	$ 582	$ 2,601	$ (3,183)	$ 2,498

(a) Includes other income (deductions) net and other realized capital gains (losses) of $(103) million.
(b) Includes other income (deductions) net and other realized capital gains (losses) of $(36) million.
(c) Includes other income (deductions) net and other realized capital gains (losses) of $330 million.
(d) Includes other income (deductions) net and other realized capital gains (losses) of $191 million.
(e) Includes other income (deductions) net and other realized capital gains (losses) of $43 million.
(f) Includes other income (deductions) net and other realized capital gains (losses) of $(30) million.
(g) Includes other income (deductions) net and other realized capital gains (losses) of $(382) million.
(h) Includes other income (deductions) net and other realized capital gains (losses) of $(369) million.

Condensed Consolidating Statements of Cash Flow

Three Months Ended March 31, 2005 (Restated) *(in millions) (unaudited)*	**American International Group, Inc. Guarantor**	**AGC Issuer**	**Other Subsidiaries**	**Consolidated AIG**

Net cash provided by (used in) operating activities	$ 373	$ 155	$ (962)	$ (434)
Cash flows from investing:				
Invested assets disposed	265		48,207	48,472
Invested assets acquired			(68,402)	(68,402)
Other	(72)	(120)	4	(188)
Net cash used in investing activities	193	(120)	(20,191)	(20,118)
Cash flows from financing activities:				
Change in debts	(34)	1	9,231	9,198
Other	(429)	(36)	12,228	11,763
Net cash provided by (used in) financing activities	(463)	(35)	21,459	20,961
Effect of exchange rate changes on cash	30		(87)	(57)
Change in cash	133		219	352
Cash at beginning of period	17		1,992	2,009
Cash at end of period	$ 150	$	$ 2,211	$ 2,361

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

Three Months Ended March 31, 2004 (Restated) *(in millions) (unaudited)*	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 527	$ 468	$ 7,011	$ 8,006
Cash flows from investing:				
Invested assets disposed	315		45,941	46,256
Invested assets acquired	(176)		(75,556)	(75,732)
Other	(345)	(302)	465	(182)
Net cash used in investing activities	(206)	(302)	(29,150)	(29,658)
Cash flows from financing activities:				
Change in debts	(24)	(147)	3,635	3,464
Other	(192)	(19)	19,095	18,884
Net cash (used in) provided by financing activities	(216)	(166)	22,730	22,348
Effect of exchange rate changes on cash	(120)		422	302
Change in cash	(15)		1,013	998
Cash at beginning of period	19		903	922
Cash at end of period	$ 4	$	$ 1,916	$ 1,920

(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

March 31, 2005 (Restated) *(in millions) (unaudited)*	**American International Group, Inc. Guarantor**	**AIG Liquidity Corp.**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Assets:					
Invested assets	**$ 764**	**$ ***	**$ 677,335**	**$ (12,755)**	**$ 665,344**
Cash	**150**	*****	**2,211**		**2,361**
Carrying value of subsidiaries and partially owned companies, at equity	**82,963**		**41,735**	**(123,154)**	**1,544**
Other assets	**2,811**	*****	**162,669**	**(4,252)**	**161,228**
Total assets	**$ 86,688**	**$ ***	**$ 883,950**	**$ (140,161)**	**$ 830,477**

Liabilities:										
Insurance liabilities	$	**391**	$		$	**443,604**	$	**(71)**	$	**443,924**
Debt		**3,650**		*		**114,641**		**(12,270)**		**106,021**
Other liabilities		**1,039**		*		**202,498**		**(4,811)**		**198,726**
Total liabilities		**5,080**		*		**760,743**		**(17,152)**		**748,671**
Preferred shareholders equity in subsidiary companies						**198**				**198**
Total shareholders equity		**81,608**		*		**123,009**		**(123,009)**		**81,608**
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$	**86,688**	$	*	$	**883,950**	$	**(140,161)**	$	**830,477**

** Amounts significantly less than $1 million.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

December 31, 2004 *(in millions) (unaudited)*	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	$ 1,027	$ *	$ 650,238	$ (12,984)	$ 638,281
Cash	17	*	1,992		2,009
Carrying value of subsidiaries and partially owned companies, at equity	80,966		38,942	(118,413)	1,495
Other assets	2,786	*	156,963	(389)	159,360
Total assets	$ 84,796	$ *	$ 848,135	$ (131,786)	$ 801,145
Liabilities:					
Insurance liabilities	$ 405	$	$ 428,130	$ (69)	$ 428,466
Debt	3,647	*	105,509	(12,257)	96,899
Other liabilities	1,071	*	196,043	(1,206)	195,908
Total liabilities	5,123	*	729,682	(13,532)	721,273
Preferred shareholders equity in subsidiary companies			199		199
Total shareholders equity	79,673	*	118,254	(118,254)	79,673
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 84,796	$ *	$ 848,135	$ (131,786)	$ 801,145

**Amounts significantly less than $1 million.*

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2005 (Restated) *(in millions) (unaudited)*	**American International Group, Inc. Guarantor**	**AIG Liquidity Corp.**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Operating income	**$ (10)***(a)*	**$ ***	**$ 5,659***(b)*	**$**	**$ 5,649***(c)*
Equity in undistributed net income of consolidated subsidiaries	**3,646**		**701**	**(4,347)**	
Dividend income from consolidated subsidiaries	**271**			**(271)**	
Income taxes	**108**	*****	**1,598**		**1,706**
Minority interest			**(144)**		**(144)**
Net income (loss)	**$ 3,799**	**$ ***	**$ 4,618**	**$ (4,618)**	**$ 3,799**

**Amounts significantly less than $1 million.*

American International | AIG

Three Months Ended March 31, 2004 (Restated) *(in millions) (unaudited)*	Group, Inc. Guarantor	Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	$ 88*(d)*	$ *	$ 3,754*(e)*	$	$ 3,842*(f)*
Equity in undistributed net income of consolidated subsidiaries	2,259		578	(2,837)	
Dividend income from consolidated subsidiaries	322		24	(346)	
Income taxes	171	*	959		1,130
Minority interest			(70)		(70)
Cumulative effect of an accounting change, net of tax			(144)		(144)
Net income (loss)	$ 2,498	$ *	$ 3,183	$ (3,183)	$ 2,498

**Amounts significantly less than $1 million.*
(a) Includes other income (deductions) net and other realized capital gains (losses) of $(103) million.
(b) Includes other income (deductions) net and other realized capital gains (losses) of $294 million.
(c) Includes other income (deductions) net and other realized capital gains (losses) of $191 million.
(d) Includes other income (deductions) net and other realized capital gains (losses) of $43 million.
(e) Includes other income (deductions) net and other realized capital gains (losses) of $(412) million.
(f) Includes other income (deductions) net and other realized capital gains (losses) of $(369) million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

Condensed Consolidating Statements of Cash Flow

Three Months Ended March 31, 2005 (Restated) *(in millions) (unaudited)*	**American International Group, Inc. Guarantor**	**AIG Liquidity Corp.**	**Other Subsidiaries**	**Consolidated AIG**
Net cash provided by (used in) operating activities	**$ 373**	**$ ***	**$ (807)**	**$ (434)**
Cash flows from investing:				
Invested assets disposed	**265**		**48,207**	**48,472**
Invested assets acquired			**(68,402)**	**(68,402)**
Other	**(72)**	*****	**(116)**	**(188)**
Net cash used in investing activities	**193**	*****	**(20,311)**	**(20,118)**
Cash flows from financing activities:				
Change in debts	**(34)**		**9,232**	**9,198**
Other	**(429)**	*****	**12,192**	**11,763**
Net cash provided by financing activities	**(463)**	*****	**21,424**	**20,961**
Effect of exchange rate changes on cash	**30**		**(87)**	**(57)**
Change in cash	**133**	*****	**219**	**352**
Cash at beginning of period	**17**		**1,992**	**2,009**
Cash at end of period	**$ 150**	**$ ***	**$ 2,211**	**$ 2,361**

**Amounts significantly less than $1 million.*

Three Months Ended March 31, 2004 (Restated) *(in millions) (unaudited)*	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 527	$ *	$ 7,479	$ 8,006
Cash flows from investing:				
Invested assets disposed	315		45,941	46,256
Invested assets acquired	(176)		(75,556)	(75,732)
Other	(345)	*	163	(182)
Net cash used in investing activities	(206)	*	(29,452)	(29,658)
Cash flows from financing activities:				
Change in debts	(24)		3,488	3,464
Other	(192)	*	19,076	18,884

Net cash (used in) provided by financing activities		(216)		*		22,564	22,348
Effect of exchange rate changes on cash		(120)				422	302
Change in cash		(15)		*		1,013	998
Cash at beginning of period		19				903	922
Cash at end of period	$	4	$	*	$	1,916	$ 1,920

**Amounts significantly less than $1 million.*

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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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EX-12: STATEMENT RE COMPUTATION OF RATIOS
EX-31: CERTIFICATIONS
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Cautionary Statement Regarding Projections and Other Information About Future Events

This Quarterly Report and other publicly available documents may include, and AIG s officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are not historical facts but instead represent only AIG s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG s control. These projections and statements may address, among other things, the status and potential future outcome of the current regulatory and civil proceedings against AIG and their potential effect on AIG s businesses, financial position, results of operations, cash flows and liquidity, the effect of the credit rating downgrades on AIG s businesses and competitive position, the unwinding and resolving of various relationships between AIG and Starr and SICO, and AIG s strategy for growth, product development, market position, financial results and reserves. It is possible that AIG s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements. Factors that could cause AIG s actual results to differ, possible materially, from those in the specific projections and statements are discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Risk Factors in Item 1A, Part I of AIG s 2005 Annual Report on Form 10-K. AIG is not under any obligation (and expressly disclaims any such obligations) to update or alter any projection or other statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

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

Restatement of Previously Issued Financial Statements

In connection with preparation of AIG s consolidated financial statements included in AIG s 2004 Annual Report on Form 10-K, AIG s current management initiated an internal review of AIG s books and records, which was substantially expanded in mid-March 2005. As a result of the internal review, AIG concluded that the accounting for certain transactions and certain relationships needed to be restated or adjusted. AIG restated the accounting for certain transactions and certain relationships for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 (the First Restatement).

As announced on November 9, 2005, AIG identified certain errors, the preponderance of which were identified during the remediation of material weaknesses in internal controls referred to in the Explanatory Note, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting. AIG also announced it was correcting errors that were identified since the First Restatement, including those related to the accounting for certain payments received from aircraft and engine manufacturers by ILFC, which were originally corrected in AIG s Second Quarter Form 10-Q. The adjustments to correct the foregoing errors are referred to in this First Quarter Form 10-Q/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal control over financial reporting referred to in the Explanatory Note, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in DBG. As a result, AIG is including further adjustments (the Additional Adjustments) in its restatement of the consolidated financial statements and financial statement schedules for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of the preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and is restating the first three quarters of 2005. The Initial Adjustments and the Additional Adjustments are referred to herein as the Second Restatement. AIG s quarterly report on Form 10-Q for the quarter ended September 30, 2005 (September 2005 Form 10-Q) will not be amended because the Additional Adjustments to the financial statements included therein are not material to those financial statements.

The financial information that is included in this First Quarter Form 10-Q/A has been restated as part of the First Restatement and the Second Restatement (the Restatements).

Overview of Operations and Business Results

AIG identifies its reportable segments by product line consistent with its management structure. AIG s major product and service groupings are General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. AIG s operations in 2005 are conducted by its subsidiaries principally through these segments. Through these segments, AIG provides insurance and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions. This geographic, product and service diversification is one of AIG s major strengths and sets it apart from its competitors. The importance of this diversification was especially evident in 2004, when record catastrophe losses in certain insurance operations were more than offset by profitability in those operations as well as in other segments and product lines. Although regional economic downturns or political upheaval could negatively affect parts of AIG s operations, AIG believes that its diversification makes it unlikely that regional difficulties would have a material effect on its operating results, financial condition or liquidity.

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 underwriters 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 and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services and offers guaranteed investment contracts, also known as funding agreements, (GICs) to institutions and individuals.

AIG s operating 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. To achieve this goal, AIG must be disciplined in its risk selection and premiums must be adequate and terms and conditions

appropriate to cover the risk accepted. AIG believes in strict control of expenses.

Another central focus of AIG operations in current years is the development and expansion of new distribution channels. In 2004, AIG expanded its distribution channels in many Asian countries, which now include banks, credit card companies and television-media home shopping. In late 2003, AIG entered into an agreement with PICC Property and Casualty Company, Limited (PICC), which will enable the marketing of accident and health products throughout China through PICC s branch networks and agency system. AIG participates in the underwriting results through a reinsurance agreement and also holds a 9.9 percent ownership interest in PICC. Other examples of new distribution channels used both domestically and overseas include banks, affinity groups, direct response and e-commerce.

AIG patiently builds relationships in markets around the world where it sees long-term growth opportunities. For example, the fact that AIG has the only wholly-owned foreign life insurance operations in eight cities in China is the result of relationships developed over nearly 30 years. AIG s more recent extensions of operations into India, Vietnam, Russia and other emerging markets reflect the same growth strategy. 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 sophisticated and investment-oriented models.

Growth for AIG may be generated both internally and through acquisitions which both fulfill strategic goals and offer adequate return on capital. In recent years, the acquisitions of AIG Star Life and AIG Edison Life have broadened AIG s penetration of the Japanese market through new 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, efforts to reform the tort system and class action litigation procedures, legislation to deal with the asbestos problem and the renewal of the Terrorism Risk Insurance Act have been key issues, while in prior years trade legislation and Superfund had 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 three months ended March 31, 2005 and 2004:

(in millions)	**2005 (Restated)**	2004 (Restated)
Total revenues	**$ 27,202**	$ 23,222
Income before income taxes, minority interest and cumulative effect of an accounting change	**5,649**	3,842
Net income	**$ 3,799**	$ 2,498

Consolidated Results

The 17.1 percent growth in revenues in the first three months of 2005 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 Life Insurance & Retirement Services GAAP premiums.

AIG s income before income taxes, minority interest and cumulative effect of an accounting change increased 47.0 percent in the first three months of 2005 when compared to the same period of 2004. General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management operating income gains were the primary factors for the increase over 2004 in both pretax income and net income.

The following table summarizes the operations of each principal segment for the three months ended March 31, 2005 and 2004. (See also Note 3 of Notes to Consolidated Financial Statements.)

(in millions)	**2005 (Restated)**	2004 (Restated)
Revenues[(a)]:		
General Insurance[(b)]	**$ 11,219**	$ 10,097
Life Insurance & Retirement Services[(c)]	**11,775**	10,485
Financial Services[(d)]	**2,436**	1,814
Asset Management[(e)]	**1,377**	1,050
Other	**395**	(224)
Consolidated	**$ 27,202**	$ 23,222
Operating Income[(a)(f)]:		
General Insurance	**$ 1,642**	$ 1,442
Life Insurance & Retirement Services	**2,181**	1,749
Financial Services	**1,045**	584
Asset Management	**590**	436
Other[(g)]	**191**	(369)
Consolidated	**$ 5,649**	$ 3,842

(a) Revenues and operating income reflect changes in market or estimated fair value associated with hedging activities that do not qualify for hedge accounting pursuant to FAS 133.
(b) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).
(c) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).
(d) Represents interest, lease and finance charges.
(e) Represents management and advisory fees and net investment income with respect to GICs.
(f) Represents income before income taxes, minority interest and cumulative effect of an accounting change.
(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 three months of 2005 compared to the same period of 2004 was primarily attributable to strong growth in operating income with respect to Domestic Brokerage Group s and Foreign General s operations, offset by a decrease in realized capital gains for the segment in the first three months of 2005 compared to the same period of 2004. DBG s operating income included additional losses in the first three months of 2005 resulting from increased labor and material costs related to the 2004 Florida hurricanes.

Life Insurance & Retirement Services

AIG s Life Insurance & Retirement Services operations provide insurance, financial and investment products throughout the world. Foreign operations provided approximately 55 percent of AIG s Life Insurance & Retirement Services operating income for the first quarter of 2005.

Life Insurance & Retirement Services operating income increased by 24.7 percent in the first three months of 2005 when compared to the same period of 2004. This increase resulted from growth in AIG s principal Life Insurance & Retirement Services businesses, and the decline in realized capital losses in 2005 compared to 2004.

Financial Services

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

Financial Services operating income increased by 78.9 percent in the first three months of 2005 compared to the same period of 2004, primarily due to the fluctuation in earnings resulting from the accounting effect of FAS 133. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations and the effect of not qualifying for hedge accounting treatment under FAS 133 for hedges on securities available for sale and borrowings. Consumer Finance operations increased revenues and operating income, both domestically and internationally.

Asset Management

AIG s Asset Management operations include institutional and retail asset management and broker dealer services and spread-based investment business from the sale of GICs. These products and services are offered to individuals and institutions, both domestically and overseas.

Asset Management operating income increased 35.3 percent in the first three months of 2005 when compared to the same period of 2004 as a result of the upturn in worldwide financial markets and a strong global product portfolio.

Capital Resources

At March 31, 2005, AIG had total consolidated shareholders equity of $81.61 billion and total consolidated borrowings of $106.02 billion. At that date, $96.51 billion of such borrowings were either not guaranteed by AIG or were AIGFP s matched borrowings under obligations of guaranteed investment agreements (GIAs), liabilities connected to trust preferred stock, or matched notes and bonds payable.

During the period from January 1, 2005 through March 31, 2005, AIG purchased in the open market 2,477,100 shares of its common stock.

Liquidity

At March 31, 2005, AIG s consolidated invested assets included $24.38 billion in cash and short-term investments. Consolidated net cash used in operating activities in the first three months of 2005 amounted to $434 million. The $434 million in consolidated net cash used in operating activities is net of approximately $8 billion used by AIGFP to purchase securities purchased under agreements to resell and to repurchase securities sold under agreements to repurchase in the ordinary course of AIGFP s business. This operating

activity was funded in part by proceeds from security sales under similar repurchase and reverse repurchase agreements, but primarily by AIGFP s financing activities, specifically proceeds from guaranteed investment agreements and notes, bonds, loans and mortgages payable. Approximately half of the $8 billion was subsequently invested in securities available for sale. AIG believes that its liquid assets and access to short term funding through commercial paper and bank credit facilities will enable it to meet any anticipated cash requirements.

Outlook

From March through June of 2005, the major rating agencies downgraded AIG s ratings in a series of actions. Standard & Poor s, a division of the McGraw-Hill Companies, Inc. (S&P), lowered the long-term senior debt and counterparty ratings of AIG from AAA to AA (second highest of eight rating categories) and changed the rating outlook to negative. S&P s outlook indicates the potential direction of a rating over the intermediate term (typically six months to two years). A negative outlook means that a rating may be lowered; however, an outlook is not necessarily a precursor to a rating change. Moody s Investors Service (Moody s) lowered AIG s long-term senior debt rating from Aaa to Aa2 (second highest of nine rating categories) with a stable outlook. Moody s appends numerical modifiers 1, 2, and 3 to the generic rating categories to show relative position within rating categories. Fitch Ratings (Fitch) downgraded the long-term senior debt ratings of AIG from AAA to AA (second highest of nine rating categories) and placed the ratings on Rating Watch Negative. A Fitch Rating Watch notifies investors that there is a reasonable probability of a rating change and the likely direction of such change. A Rating Watch Negative indicates a potential downgrade. Rating Watch is typically resolved over a relatively short period. In April 2006, Fitch removed AIG from Rating Watch Negative and affirmed its rating with a stable outlook.

The agencies also took rating actions on AIG s insurance subsidiaries. S&P lowered the financial strength ratings of AIG s insurance subsidiaries to AA+ (second highest rating of eight rating categories) and assigned a negative rating outlook. Fitch also lowered the financial strength ratings of AIG s insurance companies to AA+ (second highest of nine rating categories) and placed them on Rating Watch Negative. In April 2006, Fitch removed the financial strength ratings from Rating Watch Negative and affirmed them with a stable outlook. S&P and Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories. Moody s lowered the insurance financial strength ratings generally to either Aa1 or Aa2 (both within the second highest of nine rating categories) with a stable outlook. A.M. Best downgraded the financial strength ratings of most of AIG s insurance subsidiaries from A++ to A+ (second highest of fourteen rating levels) and the issuer credit ratings from aa+ to aa- (remaining within the second highest of nine rating levels) and placed the ratings under review with negative implications. An under review modifier by A.M. Best is assigned to a company whose rating opinion is under review and may be subject to change in the near-term, generally defined as six months. Negative implications indicates a potential downgrade.

In addition, S&P changed the outlook on the AA- long-term senior debt rating (second highest out of eight rating categories) of International Lease Finance Corporation (a wholly owned subsidiary of AIG) (ILFC) to negative. Moody s affirmed ILFC s long-term and short-term senior debt ratings (A1 / P-1) (third highest of nine, and highest of three, rating categories, respectively). Fitch downgraded ILFC s long-term senior debt rating from AA- to A+ (third highest of nine rating categories), placed it on Rating Watch Negative and downgraded ILFC s short-term debt rating from F1+ to F1 (remaining within the highest of five rating categories). In April 2006, Fitch removed ILFC s long-term senior debt rating from Rating Watch Negative and affirmed it with a stable outlook.

Fitch also placed the A+ long-term senior debt ratings (third highest of nine rating categories) of American General Finance Corporation and American General Finance, Inc. (wholly owned subsidiaries of AIG) on Rating Watch Negative. In April 2006, these ratings were also removed from Rating Watch Negative and affirmed with a stable outlook. S&P and Moody s affirmed the long-term and short-term senior debt ratings of American General Finance Corporation of A+ / A-1 (third highest of eight rating categories/ highest of eight rating categories) and A1 / P-1 (third highest of nine rating categories/ highest of three rating categories), respectively.

These debt and financial strength ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at AIG management s request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries.

These ratings actions have affected and will continue to affect AIG s business and results of operations in a number of ways.

Downgrades in AIG s debt ratings will adversely affect AIG s results of operations. AIG relies on external sources of financing to fund several of its operations. The cost and availability of unsecured financing are generally dependent on the issuer s long-term and short-term debt ratings. These downgrades and any future downgrades in AIG s debt ratings will increase AIG s borrowing costs and therefore adversely affect AIG s results of operations.

The downgrade in AIG s long-term senior debt ratings will adversely affect AIGFP s ability to compete for cer-

tain businesses. Credit ratings are very important to the ability of financial institutions to compete in the derivative and structured transaction marketplaces. Historically, AIG s triple-A ratings provided AIGFP a competitive advantage. The downgrades have reduced this advantage and, for specialized financial transactions that generally are conducted only by triple-A rated financial institutions, counterparties may be unwilling to transact business with AIGFP except on a secured basis. This could require AIGFP to post more collateral to counterparties in the future. See below for a further discussion of the effect that posting collateral may have on AIG s liquidity.

Although the financial strength ratings of AIG s insurance company subsidiaries remain high compared to many of their competitors, the downgrades have reduced the previous ratings differential. The competitive advantage of the ratings to AIG s insurance company subsidiaries may be lessened accordingly. The regulatory inquiries, internal investigations, and delay in the filing of the 2004 Annual Report on Form 10-K, as well as negative publicity, had caused independent producers and distributors of AIG s domestic life and retirement services products to be more cautious in placing business with AIG subsidiaries. AIG is unable to predict the effect of these issues on AIG s business, including any increase in associated surrender or replacement activity.

As a result of the downgrades of AIG s long-term senior debt ratings, AIG was required to post approximately $1.16 billion of collateral with counterparties to municipal guaranteed investment agreements and financial derivatives transactions. In the event of a further downgrade, AIG will be required to post additional collateral. It is estimated that, as of the close of business on February 28, 2006, based on AIG s outstanding municipal guaranteed investment agreements and financial derivatives transactions as of such date, a further downgrade of AIG s long-term senior debt ratings to Aa3 by Moody s or AA- by S&P would permit counterparties to call for approximately $962 million of additional collateral. Further, additional downgrades could result in requirements for substantial additional collateral, which could have a material effect on how AIG manages its liquidity. The actual amount of additional collateral that AIG would be required to post to counterparties in the event of such downgrades depends on market conditions, the market value of the outstanding affected transactions and other factors prevailing at the time of the downgrade. Any additional obligations to post collateral will increase the demand on AIG s liquidity.

Despite industry price erosion in some classes of general insurance, AIG expects to continue to identify profitable opportunities and build attractive new General Insurance businesses as a result of AIG s broad product line and extensive distribution networks. AIG expects total General Insurance premiums to increase for 2005 and expects cash flow for investments to remain strong. Thus, General Insurance net investment income is expected to rise in future quarters even in a continued low interest rate environment.

In China, AIG has wholly-owned life insurance operations in eight cities. These operations should benefit from China s rapid rate of economic growth and growing middle class, a segment that is a prime market for life insurance. AIG believes that it may also have opportunities in the future to grow by entering the group insurance business. However, in March 2005 it withdrew its application to serve the group insurance market until certain regulatory issues are resolved. Among the regulatory issues to be addressed is the response to AIG s acknowledgment that certain of its Hong Kong based agents sold life insurance to customers on the Chinese mainland in contravention of applicable regulations.

AIG Edison Life, acquired in August 2003, 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. In January 2005, AIG Star Life entered into an agreement with the Bank of Tokyo Mitsubishi, one of Japan s largest banks, to market a multi-currency fixed annuity. Through ALICO, AIG Star Life and AIG Edison, AIG has developed a leadership position in the distribution of annuities through banks. AIG is also a leader in the direct marketing of insurance products through sponsors and in the broad market. AIG also expects continued growth in India, Korea and Vietnam.

Domestically, AIG anticipates continued operating growth in 2005 as distribution channels are expanded and new products are introduced. The home service operation has not met business objectives, although its cash flow has been strong, and domestic group life/health was also weak. AIG American General s current ratings remain equal to or higher than many of its principal competitors. Nevertheless, recent events have caused independent producers and distributors of AIG American General s products to be more cautious in placing business with AIG. Therefore, AIG is unable to predict the effect of these issues on AIG s business, including any increase in associated surrender or replacement activity.

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 an increasing level of interest from a variety of purchasers. Therefore, AIG believes that the improvements in that market which commenced in 2003 will be gradually reflected in ILFC s results in 2005. In the Capital Markets operations, the integration of AIG Trading Group Inc. and its

subsidiaries into the operations of AIGFP created operating efficiencies that will continue to be realized and product synergies that should enhance 2005 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 both domestically and overseas. However, the downgrades of AIG s credit ratings may adversely affect funding costs for AIG and its subsidiaries and AIGFP s ability to engage in derivative transactions and certain structured products. See Risk Factors AIG s Credit Ratings in Item 1A. of Part I of AIG s 2005 Annual Report on Form 10-K.

GICs, which are sold domestically and abroad to both institutions and individuals, are written on an opportunistic basis when market conditions are favorable. AIG expects to launch a matched investment program utilizing issuances of AIG debt securities, which will become AIG s principal spread-based investment activity. However, in light of recent developments, the timing of the launch of this program is uncertain. Because AIG s credit spreads in the capital markets have widened following the ratings declines, there may be a reduction in the earnings on new business in AIG s spread based funding businesses.

AIG has many promising growth initiatives underway around the world in its insurance and other operations. Cooperative agreements such as those with PICC and various banks in the U.S., Japan and Korea are expected to expand distribution networks for AIG s products and provide models for future growth.

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, estimated gross profits for investment-oriented products, fair value determinations for certain Capital Markets assets and liabilities and other than temporary declines in the value of investments. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG s results of operations would be directly affected.

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 premium rate adequacy and the projected loss ratio with respect to prior accident years.

Expected loss ratios for the latest accident year: for example, accident year 2004 for the year end 2004 loss reserve analysis. 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: 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 geographical region, year of issuance and products.

Mortality, morbidity and surrender rates: based upon actual experience by geographical region modified to allow for variation in policy form.

Estimated Gross Profits (Life Insurance & Retirement Services):

Estimated gross profits to be realized over the estimated duration of the contracts (investment-oriented products) affects the carrying value of deferred policy acquisition costs under FAS 97. Estimated gross profits include investment income and gains and losses on investments less required interest, actual mortality and other expenses.

Deferred Policy Acquisition Costs (Life Insurance & Retirement Services):

Recoverability based on current and future expected profitability, which is affected by interest rates, foreign exchange rates, mortality experience, and policy persistency.

Deferred Policy Acquisition Costs (General Insurance):

Recoverability and eligibility based upon the current terms and profitability of the underlying insurance contracts.

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 from verifiable prices from trades occurring on dates nearest to the dates of the transactions.

Other Than Temporary Declines in the Value of Investments:

Securities are considered a candidate for impairment based upon the following criteria:

Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine months or longer).

The occurrence of a discrete credit event resulting in the debtor default, seeking bankruptcy or insolvency protection or voluntary reorganization.

The possibility of non-realization of a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Flight Equipment Recoverability (Financial Services):

Expected undiscounted future net cash flows: based upon current lease rates, projected future lease rates and estimated terminal values of each aircraft based on third party information.

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 the Domestic Brokerage Group (DBG), which includes the operations of 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 (UGC).

AIG s primary domestic division is DBG. DBG s business in the United States and Canada is conducted through its General Insurance subsidiaries including American Home, National Union, Lexington and certain other General Insurance company subsidiaries of AIG.

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.

In addition to writing substantially all classes of business insurance, including large commercial or industrial property insurance, excess liability, inland marine, environmental, workers compensation and excess and umbrella coverages, DBG offers many specialized forms of insurance such as aviation, accident and health, equipment breakdown, directors and officers liability (D&O), difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and omissions coverages. The AIG Risk Management operation provides insurance and risk management programs for large corporate customers. The AIG Risk Finance operation is a leading provider of customized structured insurance products. Also included in DBG are the operations of AIG Environmental, which focuses specifically on providing specialty products to clients with environmental exposures. Lexington writes surplus lines, those risks for which conventional insurance companies do not readily provide insurance coverage, either because of complexity or because the coverage does not lend itself to conventional contracts.

Certain of the products of the DBG companies include funding components or have been structured in a manner such that little or no insurance risk is actually transferred. Funds received in connection with these products are recorded as deposits, included in other liabilities, rather than premiums and incurred losses.

The AIG Worldsource Division introduces and coordinates AIG s products and services to U.S.-based multinational clients and foreign corporations doing business in the U.S.

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

AIG s Personal Lines operations provide automobile insurance through AIG Direct, the mass marketing operation of AIG, Agency Auto Division and 21st Century Insurance Group, as well as a broad range of coverages for high-net-worth individuals through the AIG Private Client Group.

The principal business of the UGC subsidiaries is the writing of residential mortgage loan insurance, which is guaranty insurance on conventional first mortgage loans on single-family dwellings and condominiums. This type of insurance protects lenders against loss if borrowers default. UGC subsidiaries also write home equity and property improvement loan insurance on loans to finance residential property improvements, alterations and repairs and for other purposes not necessarily related to real estate.

AIG s Foreign General Insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance companies. The Foreign General Insurance group also includes business written by AIG s foreign-based insurance subsidiaries. The Foreign General group uses various marketing methods and multiple distribution channels to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in Asia, the Pacific Rim, the United Kingdom, Europe, Africa, the Middle East and Latin America.

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 profit from underwriting activities exclusive of investment-related income. When un-

derwriting 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. For these reasons, AIG views underwriting results to be critical in the overall evaluation of performance.

Statutory underwriting profit is derived 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. Thus, statutory expenses exclude changes in deferred acquisition costs (DAC).

GAAP provides for the recognition of expenses at the same time revenues are earned, the accounting principle of matching. Therefore, acquisition expenses are deferred and amortized over the period the related net premiums written are earned. DAC is reviewed for recoverability, and such review requires management judgment. (See also Critical Accounting Estimates herein.)

AIG, along with most General Insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. The loss ratio is the sum of 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.

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.

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

General Insurance operating income is comprised of statutory underwriting results, changes in DAC, net investment income and realized capital gains and losses. Operating income, as well as net premiums written, net premiums earned, net investment income and realized capital gains (losses) and statutory ratios for the three months ended March 31, 2005 and 2004 were as follows:

(in millions, except ratios)	**2005 (Restated)**	2004 (Restated)
Net premiums written:		
Domestic General		
DBG	**$ 5,720**	$ 5,355
Transatlantic	**885**	907
Personal Lines	**1,186**	1,119
Mortgage Guaranty	**165**	154
Foreign General	**2,834**	2,503
Total	**$ 10,790**	$ 10,038
Net premiums earned:		
Domestic General		
DBG	**$ 5,573**	$ 4,930
Transatlantic	**888**	893
Personal Lines	**1,120**	1,042
Mortgage Guaranty	**140**	134
Foreign General	**2,419**	2,089
Total	**$ 10,140**	$ 9,088

Net investment income:				
Domestic General				
DBG	**$**	**659**	$	501
Transatlantic		**85**		72
Personal Lines		**52**		43
Mortgage Guaranty		**28**		29
Intercompany adjustments and eliminations net		**1**		
Foreign General		**190**		176
Total	**$**	**1,015**	$	821
Realized capital gains (losses)		**64**		188
Operating income:				
Domestic General:				
DBG	**$**	**713(a)**	$	556
Transatlantic		**114**		117
Personal Lines		**109**		96
Mortgage Guaranty		**104**		96
Foreign General		**596**		571
Reclassifications and eliminations		**6**		6
Total	**$**	**1,642**	$	1,442
Domestic General:				
Loss Ratio		**77.23(a)**		78.52
Expense Ratio		**19.76**		19.99
Combined Ratio		**96.99**		98.51
Foreign General:				
Loss Ratio		**54.43**		57.67
Expense Ratio[(b)]		**27.25**		25.45
Combined ratio[(b)]		**81.68**		83.12

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American International Group, Inc. and Subsidiaries

(in millions, except ratios)	**2005 (Restated)**	2004 (Restated)
Consolidated:		
Loss Ratio	**71.79(a)**	73.73
Expense Ratio	**21.73**	21.35
Combined Ratio	**93.52**	95.08

(a) Includes $118 million of additional losses incurred resulting from increased labor and material costs related to the 2004 Florida Hurricanes (1.53 points increase on the domestic general loss ratio and 1.16 points increase on the consolidated general loss ratio).

(b) Includes the results of wholly owned AIU agencies.

General Insurance Results

General Insurance operating income in the first three months of 2005 showed excellent results. The increase in General Insurance operating income in the first three months of 2005 was primarily attributable to strong profitable growth in Foreign General s underwriting results and DBG s and Foreign General s net investment income partially offset by a decrease in realized capital gains relative to the same period of 2004. DBG s underwriting results included additional losses incurred resulting from increased labor and material costs related to the 2004 Florida hurricanes.

Like most AIG units, DBG benefited in the first three months of 2005 from a strong profit center focus and growing distribution channels. Overall, DBG s net premiums written increased in the first three months of 2005 over 2004, as new business, generally higher renewal retention rates and a modest change in the mix of business towards classes (i.e. smaller accounts) that purchase less reinsurance more than offset modest rate decreases in some classes (i.e. property, D&O, healthcare, aviation). Domestic property-casualty premium rates are generally satisfactory at this time, although AIG has begun to see evidence in some classes of business, including property, D&O, energy and healthcare, where rates quoted by other carriers on selected accounts or segments do not meet AIG s view of satisfactory. The loss ratio decreased from same period of 2004 principally as a result of the impact of prior year rate increases on premiums earned in the quarter, lower losses in the quarter in short tail classes of business, such as property and accident & health, offset by $118 million of additional losses incurred resulting from increased labor and material costs related to the 2004 Florida hurricanes.

Transatlantic s net premiums written and net premiums earned for the first quarter of 2005 decreased compared with the same period in 2004, principally as a result of decreased domestic business, partially offset by increased international business.

Personal Lines net premiums written in the first three months of 2005 increased when compared to the same period of 2004 due to good growth in its core business units through expanded marketing efforts, increased agent/broker appointments, and enhanced product offerings. These gains were partially offset by reductions in its involuntary auto business due to aggressive re-underwriting of the previously acquired GE business. Underwriting income increased as a result of earned premium growth and favorable development of prior accident years.

Mortgage Guaranty s net premiums written increased in the first three months of 2005 when compared to the same period of 2004. Strong growth in junior liens, student loans and international business were offset by continued low persistency in the residential first lien business, caused by high refinance activity fueled by low mortgage interest rates.

Foreign General Insurance had strong results in the first three months of 2005. Growth in net premiums written was achieved due to new business as well as new distribution channels partially offset by rate decreases in Australia and the United Kingdom commercial lines. The Far East region had excellent results. Personal accident business exhibited strong growth. In Japan, the purchase of the Royal & SunAlliance branch operations opened new distribution channels. Commercial lines in Europe and the Ascot syndicate continue to exhibit strong growth, as did Personal Lines operations in Brazil and Latin America. This growth translated to improved underwriting results.

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of General Insurance net premiums written for the first three months of 2005:

	2005
Growth in original currency	**6.2%**
Foreign exchange effect	**1.3**
Growth as reported in U.S. dollars	**7.5%**

As previously noted, DBG s results include $118 million of additional losses incurred in the first three months of 2005 resulting from increased labor and material costs related to the 2004 Florida hurricanes. Other effects of catastrophes incurred in the first three months of 2005 and 2004 were insignificant. The effect on 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 effect of the magnitude of possible future losses. The occurrence of one or more catastrophic events of unanticipated frequency or severity, such as 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 three months of 2005 when compared to the same period of 2004. AIG is benefiting from strong cash flow, higher interest rates as well as increased partnership income. Addi-

tionally, net investment income was positively affected by the compounding of previously earned and reinvested net investment income. As AIG believes that net premiums written will continue to increase in 2005, AIG expects that cash flow for investment will continue to be strong, resulting in growth in net investment income in 2005.

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. (See the discussion on Valuation of Invested Assets herein.)

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 29.1 percent in the first three months of 2005 compared to 37.5 percent in the same period of 2004.

Reinsurance

AIG is a major purchaser of reinsurance for its General Insurance operations. AIG insures risks globally, and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. Reinsurance is an important risk management tool to manage transaction and insurance line risk retention at prudent levels set by management. AIG also purchases reinsurance to mitigate its catastrophic exposure. 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 programs because one or more catastrophe losses could negatively affect 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 exposure to potentially significant losses.

AIG s consolidated general reinsurance assets amounted to $17.96 billion at March 31, 2005 and resulted from AIG s reinsurance arrangements. Thus, a credit exposure existed at March 31, 2005 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, 2004, approximately 43 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 57 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 March 31, 2005, these distribution percentages have not changed significantly. These ratings are measures of financial strength.

AIG maintains a reserve for estimated unrecoverable reinsurance, but it has been largely successful in its previous recovery efforts. At December 31, 2004 AIG had allowances for unrecoverable reinsurance approximating $800 million. At that date, AIG had no significant reinsurance recoverables due from any individual reinsurer that was 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 evaluating the local economic environment in which a foreign reinsurer operates. This department also reviews the nature of the risks ceded and the requirements for credit risk mitigants. For example, in AIG s treaty reinsurance contracts, AIG includes provisions that frequently require a reinsurer to post collateral when a referenced event occurs. Furthermore, AIG limits its unsecured exposure to reinsurers through the use of credit triggers, which 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 intercompany reinsurance transactions, primarily through AIRCO, for its General Insurance and Life Insurance operations. AIG enters into these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among AIG s various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All material intercompany transactions have been eliminated in consolidation. AIG generally obtains letters of credit in order to obtain statutory recognition of these intercompany reinsurance transactions. At March 31, 2005, approximately $3.3 billion of letters of credit were outstanding to cover

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intercompany reinsurance transactions with AIRCO or other General Insurance subsidiaries.

At March 31, 2005, the consolidated general reinsurance assets of $17.96 billion include reinsurance recoverables for paid losses and loss expenses of $597 million, $14.24 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves) and ceded reserve for unearned premiums of $3.12 billion. 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 March 31, 2005 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 March 31, 2005 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	$16,833
Other liability claims made	10,336
Workers compensation	9,435
Auto liability	5,512
Property	4,223
International	3,608
Reinsurance	2,480
Medical malpractice	2,236
Aircraft	1,697
Products liability	1,384
Commercial multiple peril	1,154
Accident and health	1,097
Fidelity/ surety	960
Other	2,615
Total	$63,570

** 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 on a statutory accounting basis.

At March 31, 2005, General Insurance net loss reserves increased $2.08 billion from the prior year end to $49.33 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance and the discount for future investment income. The table below classifies the components of the General Insurance net loss reserves by business unit as of March 31, 2005.

(in millions)	
DBG[(a)]	$33,891
Personal Lines[(b)]	2,314
Transatlantic	5,062
Mortgage Guaranty	353
Foreign General[(c)]	7,714

Total Net Loss Reserve	$49,334

(a) DBG loss reserves include approximately $3.37 billion ($3.98 billion before discount) related to business written by DBG but ceded to AIRCO and reported in AIRCO s statutory filings.
(b) Personal Lines loss reserves include $700 million related to business ceded to DBG and reported in DBG s statutory filings.
(c) Foreign General loss reserves include approximately $1.95 billion related to business reported in DBG s statutory filings.

The DBG net loss reserve of $33.89 billion is comprised principally of the business of AIG subsidiaries participating in the American Home/National Union pool (11 companies) and the surplus lines pool (Lexington, Starr Excess Liability Insurance Company and Landmark Insurance Company).

Beginning in 1998, DBG ceded a quota share percentage of its other liability occurrence and products liability occurrence business to AIRCO. The quota share percentage ceded was 40 percent in 1998, 65 percent in 1999, 75 percent in 2000 and 2001, 50 percent in 2002 and 2003, 40 percent in 2004 and 35 percent in 2005 and covered all business written in these years for these lines by participants in the American Home/National Union pool. In 1998 the cession reflected only the other liability occurrence business, but in 1999 and subsequent years included products liability occurrence. AIRCO s loss reserves relating to these quota share cessions from DBG are recorded on a discounted basis. As of March 31, 2005, AIRCO carried a discount of approximately $610 million applicable to the $3.98 billion in undiscounted reserves it assumed from the American Home/National Union pool via this quota share cession. AIRCO also carries approximately $375 million in net loss reserves relating to Foreign General insurance business. These reserves are carried on an undiscounted basis.

Beginning in 1997, the Personal Lines division ceded a percentage of all business written by the companies participating in the personal lines pool to the American Home/National Union pool. As noted above, the total reserves carried by participants in the American Home/National Union pool relating to this cession amounted to $700 million as of March 31, 2005.

The companies participating in the American Home/National Union pool have maintained a participation in the business written by AIU for decades. As of March 31, 2005, these AIU reserves carried by participants in the American Home/National Union pool amounted to approximately $1.95 billion. The remaining Foreign General reserves are carried by AIUO, AIRCO, and other smaller AIG subsidiaries

domiciled outside the United States. Statutory filings in the U.S. by AIG companies reflect all the business written by U.S. domiciled entities only, and therefore exclude business written by AIUO, AIRCO, and all other internationally domiciled subsidiaries. The total reserves carried at March 31, 2005 by AIUO and AIRCO were approximately $3.41 billion and $3.74 billion, respectively. AIRCO s $3.74 billion in total general insurance reserves consist of approximately $3.37 billion from business assumed from the American Home/National Union pool and an additional $375 million relating to Foreign General Insurance business.

At March 31, 2005, AIG s overall General Insurance net loss reserves reflects a loss reserve discount of $1.56 billion, including tabular and non-tabular calculations. The tabular workers compensation discount is calculated using a 3.5 percent interest rate and the 1979-81 Decennial Mortality Table. The non-tabular workers compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the yield of U.S. Treasury securities ranging from one to twenty years and the company s own payout pattern, with the future expected payment for each year using the interest rate associated with the corresponding Treasury security yield for that time period. The discount is comprised of the following: $401 million tabular discount for workers compensation in DBG; $544 million non-tabular discount for workers compensation in DBG; and, $610 million non-tabular discount for other liability occurrence and products liability occurrence in AIRCO. The total undiscounted workers compensation loss reserve carried by DBG is approximately $6.9 billion as of March 31, 2005. The other liability occurrence and products liability occurrence business in AIRCO that is assumed from DBG is discounted using a 5.5 percent interest rate and the DBG payout pattern for this business. The undiscounted reserves assumed by AIRCO from DBG totaled approximately $3.98 billion at March 31, 2005.

The methods used to determine loss reserve 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 March 31, 2005. 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 March 31, 2005. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG s consolidated financial position, although it could have a material adverse effect on AIG s consolidated results of operations for an individual reporting period.

The table below presents the reconciliation of net loss reserves for the first three months ended March 31, 2005 and 2004 as follows:

(in millions)	**2005 (Restated)**	2004 (Restated)
Net reserve for losses and loss expenses at beginning of year	**$ 47,254**	$ 36,228
Foreign exchange effect	**28**	222
Losses and loss expenses incurred:		
Current year	**7,039**	6,333
Prior years*	**240**	368
Losses and loss expenses incurred	**7,279**	6,701
Losses and loss expenses paid	**5,227**	4,645
Net reserve for losses and loss expenses at end of period	**$ 49,334**	$ 38,506

**Includes accretion of discount of $97 million in the first three months of 2005 and $94 million in the first three months of 2004. Additionally, includes $55 million in the first three months of 2005 and $45 million in the first three months of 2004 for the general reinsurance operations of Transatlantic, and $118 million of additional losses incurred in the first three months of 2005 resulting from increased labor and material costs related to the 2004 Florida hurricanes.*

In a very broad sense, the General Insurance loss reserves can be categorized into two distinct groups. One group is long-tail casualty lines of business which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers compensation, general liability, products liability, and related classes. 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 because a

relatively low proportion of net losses would be reported claims and expenses and an even smaller proportion would be net losses paid. Therefore, IBNR would constitute a relatively high proportion of net losses.

AIG s carried net long-tail loss reserves are tested using loss trend factors that AIG considers most appropriate for each class of business. A variety of actuarial methods and assumptions is 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 five percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms; current and future estimates of monetary inflation and social inflation and increases in litigation and awards. These factors are periodically reviewed and 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 2004 for the year end 2004 loss reserve analysis) and, in some cases, for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend (see above) and the effect of rate changes and other quantifiable factors. For low-frequency, high-severity classes such as excess casualty and 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 affecting 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. Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

With respect to the 2004 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 and 2003 analysis, with appropriate adjustments to account for the additional year of loss experience which emerged in 2004. 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 continue to give far greater weight to the more recent accident year experience than was the case in the prior year-end assumptions. For example, for the excess casualty lead umbrella class of business, 100 percent weight was given to the experience of accident years 1998-2001, with no weight given to the more favorable experience of accident years prior to 1998.

AIG s annual loss reserve review does not calculate a range of loss reserve estimates. Because a large portion of the loss reserves from AIG s General Insurance business relates to long-tail casualty lines driven by severity rather than frequency of claims, such as excess casualty and D&O, developing a range around loss reserve estimates would not be meaningful. An estimate is calculated which AIG s actuaries believe provides a reasonable estimate of the required reserve. This amount is then evaluated against actual carried reserves.

There is potential for significant variation in the development of loss reserves, particularly for long-tail casualty classes of business such as excess casualty, when actual costs differ from the assumptions used to test the reserves. Such assumptions include those made for loss trend factors and loss development factors, as described earlier. Set forth below is a sensitivity analysis demonstrating the estimated effect on the loss reserve position of alternative loss trend or loss development factor assumptions as compared to those actually used to test the carried reserves.

For the excess casualty class of business the assumed loss cost trend was five percent. Thus, in establishing the expected loss ratios for accident years 2002 through 2004, the loss costs from accident years 1998 through 2001 were trended by this five percent factor per annum. A five percent change in the assumed loss cost trend from each accident year to the next would cause approximately a $600 million change (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 the assumed loss cost trend was four percent. Thus, in establishing the expected loss ratios for accident years 2002 through 2004, the loss costs from accident years 1997 through 2001 were trended by this four percent factor per annum. A five percent change in this assumed loss cost trend would cause approximately a $500 million change (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, a five percent change in the assumed loss cost trend would cause approximately a $150 million change (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 five 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 have a significant effect on the reserve needs for other smaller classes of liability business, the potential effect of these changes on AIG s overall carried reserves would be much less than for the classes noted above.

Loss reserves pertaining to the excess casualty class of business are generally included in the Other Liability Occurrence line of business, with a small portion of the excess casualty reserves included in the Other Liability Claims Made line of business, as presented in the table on page 44. For the excess casualty class, if future loss development factors differed by five percent from those utilized in the year-end 2004 loss reserve review, there would be approximately a $450 million change (either positively or negatively) to the overall AIG loss reserve position. The comparable effect on the D&O and related management liability classes would be approximately $200 million (either positively or negatively) if future loss development factors differed by five percent from those utilized in the year-end 2004 loss reserve review. For healthcare liability classes, the effect would be approximately $125 million (either positively or negatively). For workers compensation reserves, the effect of a five percent deviation from the loss development factors utilized in the year-end 2004 reserve reviews would be approximately $750 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 five percent. There is some degree of volatility in loss development patterns for other longer tail liability classes as well. However, the potential effect on AIG s reserves would be much less than for the classes cited above.

The calculations of the effect of the five percent change in loss development factors are made by selecting the stage of accident year development where it is believed reasonable for such a deviation to occur. For example, for workers compensation, the $750 million amount is calculated by assuming

that each of the most recent eight accident years develop five percent higher than estimated by the current loss development factors utilized in the reserve study, *i.e.* the factor 1.05 is multiplied by the incurred losses (including IBNR and loss expenses) for these accident years.

AIG management believes that using a five percent change in the assumptions for loss cost trends and loss development factors provides a reasonable benchmark for a sensitivity analysis of the reserves of 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 affected 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 affecting 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, there is the potential for significant volatility in loss costs for excess casualty and, although five percent is considered a reasonable benchmark for sensitivity analysis for this business, there is the potential for variations far greater than this amount (either positively or negatively). Likewise, in the judgment of AIG s actuaries, five percent is considered an appropriate benchmark for sensitivity analysis with respect to the loss development factor assumptions used to test the reserves. It should be noted that the loss cost trend factor for excess casualty was reduced to five percent in the year-end 2004 loss reserve review compared to the 7.5 percent loss trend factor used in the 2003 review for excess casualty. This reduction was made by AIG s actuaries in response to a significant favorable loss trend that had emerged from accident year 2000 to 2001. This favorable trend appears to be continuing in accident years 2002 and 2003, although these accident years are still immature.

Loss reserves pertaining to D&O and related management liability classes of business are included in the Other Liability Claims Made line of business, as presented in the table on page 44. 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. Actual changes in loss costs from one accident year to the next in the 1990s ranged from double digit negative values for several accident years in the early 1990s to nearly 50 percent per year for the period from accident year 1996 to accident year 1999. Thus, there is the potential for extreme volatility in loss costs for this business and, although five percent is considered a reasonable benchmark for sensitivity analysis, there is the potential for variations far greater than this amount (either positively or negatively). Five percent is also considered an appropriate benchmark for sensitivity analysis with respect to the loss development factor assumptions used to test the reserves for these classes. However, as noted above, the effect of such a deviation is less than that of a similar deviation in loss cost trends. It should be noted that the loss cost trend factor for D&O and related management liability classes was reduced to four percent in the year end 2004 loss reserve reviews compared to six percent in the 2003 review. This reduction was made by AIG s actuaries in response to a relative stabilization in loss costs from accident year 1999 to 2001 following the period of sharp increases in loss costs through 1999. The stabilization in loss costs appears to be continuing in accident years 2002 and 2003, although these accident years are still immature.

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 effect 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 five 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 the volume of 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 effect of such deviations would not be material when compared to the effect cited above for excess casualty and D&O.

The comprehensive annual loss reserve review process results in an accumulation of point estimates for AIG s General Insurance business. The loss reserve carried at year-end 2004 for AIG s General Insurance business was approximately equal to the aggregate reserve indicated by the actuarial point estimates. This represents a relative improvement of approximately two percent from AIG s position as of December 31, 2003. This comparison excludes the reserves relating to asbestos and environmental exposures, which are determined using different methodologies, as described below.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

AIG continues to receive claims asserting injuries 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 subjective process and reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors.

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 exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government s refusal to release parties.

Due to this uncertainty, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims. Such future development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. If the asbestos and environmental reserves develop deficiently, such deficiency would have an adverse effect on AIG s future results of operations. AIG does not discount 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 claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, AIG generally evaluates exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques have to be supplemented by subjective considerations including management judgment. Each claim is reviewed at least semi-annually utilizing the

aforementioned approach and adjusted as necessary to reflect the current information.

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

With respect to asbestos claims handling, AIG s specialized claims staff operates to mitigate losses through proactive handling, supervision and resolution of asbestos cases. Thus, while AIG has resolved all claims with respect to miners and

major manufacturers (Tier One), its claims staff continues to operate under the same proactive philosophy to resolve claims involving accounts with products containing asbestos (Tier Two), products containing small amounts of asbestos, companies in the distribution process, and parties with remote, ill defined involvement in asbestos (Tiers Three and Four). Through its commitment to appropriate staffing, training, and management oversight of asbestos cases, AIG mitigates to the extent possible its exposure to these claims.

In order to evaluate the overall reasonableness of the asbestos and environmental reserves established using the claim-by-claim approach as described above, AIG uses two methods, the market share method and the frequency/severity or report year method.

The market share method produces indicated asbestos and environmental reserve needs by applying the appropriate AIG market share to estimated potential industry ultimate loss and loss expenses based on the latest estimates from A.M. Best and Tillinghast. The market share method is a series of tests. Six estimates of potential industry ultimate losses for asbestos and environmental claims are tested. Additionally, a second series of tests are performed, using estimated industry unpaid losses, instead of industry ultimate losses. The market share tests are also performed using estimates of AIG s market share. The reason AIG s market share is an estimate is that there are assumptions as to which years and classes of business the asbestos and environmental exposure applies. For example, commercial multiple peril business is included in the market share calculation in some, but not all, of the scenarios.

AIG s estimate of the carried net asbestos and environmental reserves were approximately $50 million greater than the mean indication of the outcomes of market share testing. However, the market share method does not give weight to AIG s actual asbestos and environmental loss experience.

The frequency/severity or report year approach, is also a series of tests which are performed separately for asbestos and for environmental exposures. For asbestos, these tests project the expected losses to be reported over the next twenty years, *i.e.* from 2005 through 2024, based on the actual losses reported through 2004 and the expected future loss emergence for these claims. Three scenarios are tested, with a series of assumptions ranging from more optimistic to more conservative. In the first scenario, all carried asbestos case reserves, as determined above using the claim-by-claim approach, are assumed to be within ten percent of their ultimate settlement value.

The second scenario relies on an actuarial projection of report year developments for asbestos claims reported from 1993 to the present to estimate case reserve adequacy as of year-end 2004. The third scenario also relies on an actuarial projection of report year claims for asbestos, but reflects claims reported from 1989 to the present to estimate case reserve adequacy as of year-end 2004. As of year-end 2004, the results of the second and third scenarios varied significantly. In the second scenario, case reserves were indicated to be at slightly less than 60 percent of the ultimate settlement value at year-end 2004, whereas in the third scenario they were indicated to be at less than 25 percent of ultimate settlement value.

Based on the results of the prior report years for each of the three scenarios described above, the report year approach then projects forward to the year 2024 the expected future report year losses, based on AIG s estimate of reasonable loss trend assumptions.

These calculations are performed on losses gross of reinsurance. The IBNR (including a provision for development of reported claims) on a net basis is based on applying a factor reflecting the expected ratio of net losses to gross losses for future loss emergence.

For environmental claims, an analogous series of frequency/severity tests are produced. In general, the case reserve adequacy assumptions are narrower, as case reserve adequacy is indicated within approximately 25 percent of adequacy in all scenarios tested. Environmental claims from future report years (*i.e.* IBNR) are projected out ten years, *i.e.* through the year 2014.

As of year-end 2004, the range of outcomes from the scenarios tested for environmental ranged from $20 million below AIG s carried reserve to approximately $200 million greater than AIG s carried reserve. The range of outcomes for asbestos was greater. The indication from the first scenario, as described above, was approximately $140 million below AIG s carried reserve. The indication from the second scenario was approximately $10 million below AIG s carried reserves. The indication from the third scenario was approximately $650 million greater than AIG s carried reserve.

At year-end 2004, AIG considered a number of factors and recent experience to determine the appropriate reserve that should be carried for these claims, including the following:

1. *Actual calendar experience for past ten years, five years, three years, and one year.* AIG experienced consistent adverse development on its carried asbestos and environmental reserves over the years. The net carried reserves from ten years ago ran off $1.45 billion deficient; from

five years ago $430 million deficient; from three years ago $350 million deficient; and from one year ago $150 million deficient. Thus the reserves consistently produced adverse development per year, with no evidence of recent improvement. These figures are prior to the year-end 2004 reserve increase.

On a gross of reinsurance basis, the adverse developments were analogous, with approximately $450 million in the latest year and $4.8 billion over the past ten years.

2. *Input from claims officers on latest year events.* DBG s claims officers observed an increasing trend toward adverse claims experience in the layers underlying its excess attachment points for a number of Tier Two claims, increasing the probability of further adverse loss developments going forward. They also noted the emergence of several asbestos non-products cases recently, raising a concern that asbestos non-products cases could become a more serious problem in the future.

3. *Deterioration in Report Year claims experience.* As noted above, the Scenario Two and Scenario Three indications for case reserve adequacy in AIG s 2004 year-end actuarial report indicated an increasing deficiency in carried case reserves for asbestos. This was the result of continued adverse development on prior year case reserves and suggests future loss development will be at higher levels than previously indicated. As a result, the Scenario Three indicated reserve deficiency increased from approximately $480 million in the 2003 year-end reserve review to a deficiency of approximately $650 million in the year-end 2004 review. Furthermore, the year-end 2004 review utilized data evaluated as of June 30, 2004. An update to this data was produced (for all large claims) with claims evaluated as of March 31, 2005, *i.e.*, an additional nine months of data beyond the year-end 2004 reserve study. This update showed that report year losses in the nine months from June 2004 to March 2005 produced additional adverse loss development. In fact, more loss development was observed during these nine months than for the twelve months from the June 2003 through June 2004 period. Thus, both the latest year s data used in the year-end 2004 actuarial study and the nine months of additional data subsequent to that study indicated the experience was deteriorating beyond what was expected at year-end 2003.

4. *Survival Ratios.* AIG s year-end 2004 survival ratio for asbestos was 5.7 and 5.2 on a gross and a net basis, respectively, prior to the year-end 2004 reserve increase. AIG s year-end 2004 survival ratio for environmental was 4.8 and 3.8 on a gross and a net basis, respectively, prior to the year-end 2004 reserve increase. These survival ratios indicated AIG s carried reserves were sufficient to fund four to five years of payments for these claims, assuming payment levels remain stable. Based on the latest two years of actual paid losses, AIG did not expect its losses to decline as quickly as these ratios imply.

5. *Industry experience.* The industry has experienced a significant wave of adverse development for asbestos since 2001, with little, if any, signs of recent improvement. Furthermore, the litigation environment has become increasingly adverse.

6. *Reinsurance Recoverable.* Although AIG has been successful in collecting the vast majority of its reinsurance on asbestos and environmental claims, the greater the future losses and the longer the exposure persists, the greater the likelihood of increased problems in collecting reinsurance. Thus, the continued adverse developments and lack of any signs that loss experience is beginning to diminish increases the risk of uncollectible reinsurance.

After considering all of these factors, particularly its recent experience, AIG determined that its carried reserve for asbestos and environmental claims would be best estimated by scenario three described above. This resulted in a $650 million increase in net asbestos reserves, and a $200 million increase in net environmental reserves. The corresponding increases in gross reserves were $1.2 billion for asbestos and $250 million for environmental reserves.

Significant uncertainty remains as to AIG s ultimate liability relating to asbestos and environmental claims. This uncertainty is due to several factors including:

- The long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;
- The increase in the volume of claims by currently unimpaired plaintiffs;
- Claims filed under the non-aggregate premises or operations section of general liability policies;
- The number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;
- Diverging legal interpretations;
- With respect to environmental claims, the difficulty in estimating the allocation of remediation cost among various parties; and
- The possibility of federal legislation that would address the asbestos and environmental issue.

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A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined for the three months ended March 31, 2005 and 2004 follows:

	2005		2004	
(in millions)	**Gross**	**Net**	Gross	Net
Asbestos:				
Reserve for losses and loss expenses at beginning of year	**$ 2,559**	**$ 1,060**	$ 1,235	$ 386
Losses and loss expenses incurred*	**78**	**24**	49	20
Losses and loss expenses paid*	**(91)**	**(29)**	(109)	(38)
Reserve for losses and loss expenses at end of period	**$ 2,546**	**$ 1,055**	$ 1,175	$ 368
Environmental:				
Reserve for losses and loss expenses at beginning of year	**$ 974**	**$ 451**	$ 789	$ 283
Losses and loss expenses incurred*	**(13)**	**(3)**		(10)
Losses and loss expenses paid*	**(30)**	**(16)**	(33)	(13)
Reserve for losses and loss expenses at end of period	**$ 931**	**$ 432**	$ 756	$ 260
Combined:				
Reserve for losses and loss expenses at beginning of year	**$ 3,533**	**$ 1,511**	$ 2,024	$ 669
Losses and loss expenses incurred*	**65**	**21**	49	10
Losses and loss expenses paid*	**(121)**	**(45)**	(142)	(51)
Reserve for losses and loss expenses at end of period	**$ 3,477**	**$ 1,487**	$ 1,931	$ 628

** All amounts pertain to policies underwritten in prior years.*

The gross and net IBNR included in the reserve for losses and loss expenses, relating to asbestos and environmental claims separately and combined, at March 31, 2005 and 2004 were estimated as follows:

	2005		2004	
(in millions)	**Gross**	**Net**	Gross	Net
Asbestos	**$ 1,864**	**$ 786**	$ 686	$ 196
Environmental	**554**	**248**	342	81
Combined	**$ 2,418**	**$ 1,034**	$ 1,028	$ 277

A summary of asbestos and environmental claims count activity for the three months ended March 31, 2005 and 2004 was as follows:

	2005			2004		
	Asbestos	**Environmental**	**Combined**	Asbestos	Environmental	Combined

Claims at beginning of year	**7,575**	**8,216**	**15,791**	7,474	8,852	16,326
Claims during year:						
Opened	**259**	**759**	**1,018**	201	967	1,168
Settled	**(19)**	**(52)**	**(71)**	(60)	(50)	(110)
Dismissed or otherwise resolved	**(130)**	**(879)**	**(1,009)**	(229)	(856)	(1,085)
Claims at end of period	**7,685**	**8,044**	**15,729**	7,386	8,913	16,299

The table below presents AIG s survival ratios for asbestos and environmental claims at March 31, 2005 and 2004. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid off using recent year average payments. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resultant survival ratio. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

AIG s survival ratios for asbestos and environmental claims, separately and combined were based upon a three-year average payment. These ratios at March 31, 2005 and 2004 were as follows:

	Gross	Net
2005		
Survival ratios:		
Asbestos	**9.8**	**12.7**
Environmental	**6.3**	**6.7**
Combined	**8.5**	**10.1**
2004		
Survival ratios:		
Asbestos	4.4	4.4
Environmental	4.9	4.0
Combined	4.6	4.3

Life Insurance & Retirement Services Operations

AIG s Life Insurance & Retirement Services subsidiaries offer a wide range of insurance and retirement savings products both domestically and abroad. Insurance-oriented products consist of individual and group life, payout annuities, endowment and accident and health policies. Retirement savings products consist generally of fixed and variable annuities. (See also Note 3 of Notes to Consolidated 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, including disability income products and payout annuities, which include single premium immediate annuities, structured settlements and terminal funding annuities. Home service operations include an array of life insurance, accident and health, and annuity products sold through career 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 annuities sold through banks, broker dealers and exclusive sales representatives, and annuity runoff operations which include previously-acquired closed blocks and other fixed and variable annuities largely sold through distribution relationships that have been discontinued.

Overseas, AIG s Life Insurance & Retirement Services operations include insurance and investment-oriented products such as whole and term life investment linked, universal life and endowments, personal accident and health products, group products including pension, life and health, and fixed and variable annuities.

Life Insurance & Retirement Services operations presented on a major product basis for the three months ended March 31, 2005 and 2004 were as follows:

(in millions)	**2005 (Restated)**	2004 (Restated)
GAAP premiums:		
Domestic Life:		
Life insurance	**$ 514**	$ 432
Home service	**203**	206
Group life/health	**251**	268
Payout annuities[(a)]	**397**	374
Total	**1,365**	