

AMERICAN INTERNATIONAL GROUP INC

Form 10-Q/A

June 19, 2006

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended **June 30, 2005**

or

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

For the transition period from _____ to _____

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

10270
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is 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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2005: **2,595,079,838.**

Table of Contents

American International Group, Inc. and Subsidiaries

Explanatory Note

Overview. This amendment to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (Second 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 June 30, 2005 (Second Quarter Form 10-Q) of American International Group, Inc. (AIG), which was originally filed on August 9, 2005, and provides information about the financial results for the three and six month periods ended June 30, 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 Second Quarter Form 10-Q/A is generally stated as of June 30, 2005 and generally does not reflect any subsequent information or events other than the restatements, except that certain forward looking statements throughout this Second Quarter Form 10-Q/A have been revised to reflect events and developments subsequent to June 30, 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 Second 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 control 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 Second 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 Second 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 Second 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.

Table of Contents

American International Group, Inc. and Subsidiaries

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

| | June 30, 2005 (Restated) | December 31, 2004 |
|---|--------------------------------|----------------------|
| Assets: | | |
| Investments and financial services assets: | | |
| Fixed maturities: | | |
| Bonds available for sale, at market value (amortized cost: 2005 \$342,520; 2004 \$329,838) | \$ 361,100 | \$ 344,399 |
| Bonds held to maturity, at amortized cost (market value: 2005 \$22,350; 2004 \$18,791) | 21,472 | 18,294 |
| Bond trading securities, at market value (cost: 2005 \$3,557; 2004 \$2,973) | 3,579 | 2,984 |
| Equity securities: | | |
| Common stocks available for sale, at market value (cost: 2005 \$9,419; 2004 \$8,424) | 11,003 | 9,772 |
| Common stocks trading, at market value (cost: 2005 \$6,671; 2004 \$5,651) | 7,074 | 5,894 |
| Preferred stocks, at market value (cost: 2005 \$2,335; 2004 \$2,017) | 2,444 | 2,040 |
| Mortgage loans on real estate, net of allowance (2005 \$57; 2004 \$65) | 14,251 | 13,146 |
| Policy loans | 7,100 | 7,035 |
| Collateral and guaranteed loans, net of allowance (2005 \$16; 2004 \$18) | 3,295 | 3,303 |
| Financial services assets: | | |
| Flight equipment primarily under operating leases, net of accumulated depreciation (2005 \$6,790; 2004 \$6,390) | 35,690 | 32,130 |
| Securities available for sale, at market value (cost: 2005 \$32,527; 2004 \$29,171) | 33,120 | 31,225 |
| Trading securities, at market value | 3,927 | 2,746 |
| Spot commodities | 454 | 534 |
| Unrealized gain on swaps, options and forward transactions | 21,388 | 22,670 |
| Trading assets | 2,055 | 3,433 |
| Securities purchased under agreements to resell, at contract value | 12,576 | 26,272 |
| Finance receivables, net of allowance (2005 \$584; 2004 \$571) | 26,763 | 23,574 |
| Securities lending collateral, at market value (which approximates cost) | 56,325 | 49,169 |
| Other invested assets | 26,311 | 23,559 |
| Short-term investments, at cost (approximates market value) | 17,465 | 16,102 |
| Total investments and financial services assets | 667,392 | 638,281 |
| Cash | 1,738 | 2,009 |
| Investment income due and accrued | 5,647 | 5,556 |
| Premiums and insurance balances receivable, net of allowance (2005 \$748; 2004 \$690) | 15,806 | 15,622 |
| Reinsurance assets, net of allowance (2005 \$840; 2004 \$832) | 19,476 | 19,613 |
| Deferred policy acquisition costs | 30,909 | 29,817 |
| Investments in partially owned companies | 1,389 | 1,495 |
| Real estate and other fixed assets, net of accumulated depreciation (2005 \$4,801; 2004 \$4,650) | 6,225 | 6,192 |
| Separate and variable accounts | 58,463 | 57,741 |
| Goodwill | 8,378 | 8,556 |
| Income taxes receivable - current | 772 | 138 |
| Other assets | 14,972 | 16,125 |
| Total assets | \$ 831,167 | \$ 801,145 |

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

American International Group, Inc. and Subsidiaries

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

| | June 30, 2005 (Restated) | December 31, 2004 |
|--|--------------------------------|----------------------|
| Liabilities: | | |
| Reserve for losses and loss expenses | \$ 64,829 | \$ 61,878 |
| Reserve for unearned premiums | 24,435 | 23,400 |
| Future policy benefits for life and accident and health insurance contracts | 108,192 | 104,740 |
| Policyholders' contract deposits | 225,619 | 216,474 |
| Other policyholders' funds | 10,332 | 10,280 |
| Reserve for commissions, expenses and taxes | 4,748 | 4,629 |
| Insurance balances payable | 3,932 | 3,661 |
| Funds held by companies under reinsurance treaties | 3,780 | 3,404 |
| Deferred income taxes payable | 9,259 | 6,588 |
| Financial services liabilities: | | |
| Borrowings under obligations of guaranteed investment agreements | 20,799 | 18,919 |
| Securities sold under agreements to repurchase, at contract value | 10,497 | 23,581 |
| Trading liabilities | 2,236 | 2,503 |
| Securities and spot commodities sold but not yet purchased, at market value | 4,870 | 5,404 |
| Unrealized loss on swaps, options and forward transactions | 13,915 | 15,985 |
| Trust deposits and deposits due to banks and other depositors | 4,154 | 4,248 |
| Commercial paper | 8,980 | 6,724 |
| Notes, bonds, loans and mortgages payable | 63,077 | 61,296 |
| Commercial paper | 3,884 | 2,969 |
| Notes, bonds, loans and mortgages payable | 5,274 | 5,502 |
| Liabilities connected to trust preferred stock | 1,489 | 1,489 |
| Separate and variable accounts | 58,463 | 57,741 |
| Minority interest | 5,368 | 4,831 |
| Securities lending payable | 57,128 | 49,972 |
| Other liabilities | 27,098 | 25,055 |
| Total liabilities | 742,358 | 721,273 |
| Preferred shareholders' equity in subsidiary companies | 196 | 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 | 2,182 | 2,094 |
| Retained earnings | 70,985 | 63,468 |
| Accumulated other comprehensive income (loss) | 10,869 | 9,444 |
| Treasury stock, at cost; 2005 156,247,638; 2004 154,904,286 shares of common stock | (2,301) | (2,211) |
| Total shareholders' equity | 88,613 | 79,673 |
| Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity | 831,167 | \$ 801,145 |

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME*(in millions, except per share data) (unaudited)*

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|------------------------------|-----------------|--------------------------------|-----------------|
| | 2005 (Restated) | 2004 | 2005 (Restated) | 2004 |
| Revenues: | | | | |
| Premiums and other considerations | \$ 35,216 | \$ 32,154 | \$ 17,536 | \$ 16,175 |
| Net investment income | 10,559 | 9,141 | 5,227 | 4,541 |
| Realized capital gains (losses) | 12 | 3 | (125) | 89 |
| Other revenues | 9,318 | 6,013 | 5,265 | 3,284 |
| Total revenues | 55,105 | 47,311 | 27,903 | 24,089 |
| Benefits and expenses: | | | | |
| Incurred policy losses and benefits | 29,156 | 27,070 | 14,283 | 13,480 |
| Insurance acquisition and other operating expenses | 13,599 | 11,750 | 6,919 | 5,960 |
| Total benefits and expenses | 42,755 | 38,820 | 21,202 | 19,440 |
| Income before income taxes, minority interest and cumulative effect of an accounting change | 12,350 | 8,491 | 6,701 | 4,649 |
| Income taxes (benefits): | | | | |
| Current | 1,983 | 2,437 | 1,015 | 1,092 |
| Deferred | 1,806 | 157 | 1,068 | 372 |
| | 3,789 | 2,594 | 2,083 | 1,464 |
| Income before minority interest and cumulative effect of an accounting change | 8,561 | 5,897 | 4,618 | 3,185 |
| Minority interest | (273) | (175) | (129) | (105) |
| Income before cumulative effect of an accounting change | 8,288 | 5,722 | 4,489 | 3,080 |
| Cumulative effect of an accounting change, net of tax | | (144) | | |
| Net income | \$ 8,288 | \$ 5,578 | \$ 4,489 | \$ 3,080 |
| Earnings per common share: | | | | |
| Basic | | | | |
| Income before cumulative effect of an accounting change | \$ 3.19 | \$ 2.20 | \$ 1.73 | \$ 1.19 |
| Cumulative effect of an accounting change, net of tax | | (0.06) | | |
| Net income | \$ 3.19 | \$ 2.14 | \$ 1.73 | \$ 1.19 |
| Diluted | | | | |
| Income before cumulative effect of an accounting change | \$ 3.16 | \$ 2.17 | \$ 1.71 | \$ 1.17 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | |
|---|----|--------------|----------|--------------|-----------------------|
| Cumulative effect of an accounting change, net of tax | | | (0.06) | | |
| Net income | \$ | 3.16 | \$ 2.11 | \$ | 1.71 \$ 1.17 |
| <hr/> | | | | | |
| Dividends declared per common share | \$ | 0.300 | \$ 0.140 | \$ | 0.125 \$ 0.075 |
| <hr/> | | | | | |
| Average shares outstanding: | | | | | |
| Basic | | 2,596 | 2,609 | 2,596 | 2,608 |
| Diluted | | 2,623 | 2,641 | 2,623 | 2,640 |

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

American International Group, Inc. and Subsidiaries

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

| Six Months Ended June 30, | 2005 (Restated) | 2004 (Restated) |
|--|------------------------|------------------------|
| Summary: | | |
| Net cash provided by operating activities | \$ 13,817 | \$ 11,886 |
| Net cash used in investing activities | (35,358) | (50,707) |
| Net cash provided by financing activities | 22,097 | 39,807 |
| Effect of exchange rate changes on cash | (827) | 125 |
| Change in cash | (271) | 1,111 |
| Cash at beginning of period | 2,009 | 922 |
| Cash at end of period | \$ 1,738 | \$ 2,033 |
| Cash flows from operating activities: | | |
| Net income | \$ 8,288 | \$ 5,578 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Noncash revenues, expenses, gains and losses included in income: | | |
| Change in: | | |
| General and life insurance reserves | 7,562 | 10,357 |
| Premiums and insurance balances receivable and payable net | 87 | (1,159) |
| Reinsurance assets | 137 | 213 |
| Deferred policy acquisition costs | (1,267) | (1,504) |
| Investment income due and accrued | (91) | (378) |
| Funds held under reinsurance treaties | 376 | 376 |
| Other policyholders funds | 52 | 415 |
| Current and deferred income taxes net | 1,170 | 1,256 |
| Reserve for commissions, expenses and taxes | 119 | (503) |
| Other assets and liabilities net | (476) | (456) |
| Bonds and common stocks trading, at market value | (1,775) | (1,277) |
| Trading assets and liabilities net | 1,111 | (341) |
| Trading securities, at market value | (1,181) | (156) |
| Spot commodities | 80 | (440) |
| Net unrealized (gain) loss on swaps, options and forward transactions | (788) | 529 |
| Securities purchased under agreements to resell | 13,696 | (2,490) |
| Securities sold under agreements to repurchase | (13,084) | 1,974 |
| Securities and spot commodities sold but not yet purchased, at market value | (534) | (434) |
| Realized capital (gains) losses | (12) | (3) |
| Equity in income of partially owned companies and other invested assets | (899) | (637) |
| Amortization of premium and discount on securities | 187 | 115 |
| Depreciation expenses, principally flight equipment | 836 | 997 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | |
|--|------------------|------------------|
| Provision for finance receivable losses | 175 | 186 |
| Other net | 48 | (332) |
| <hr/> | | |
| Total adjustments | 5,529 | 6,308 |
| <hr/> | | |
| Net cash provided by operating activities | \$ 13,817 | \$ 11,886 |
| <hr/> | | |

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(in millions) (unaudited)

| Six Months Ended June 30, | 2005 (Restated) | 2004 (Restated) |
|---|--------------------|--------------------|
| Cash flows from investing activities: | | |
| Cost of bonds, at market sold | \$ 62,719 | \$ 63,968 |
| Cost of bonds, at market matured or redeemed | 7,717 | 6,867 |
| Cost of equity securities sold | 5,896 | 6,648 |
| Realized capital gains (losses) | 12 | 3 |
| Purchases of fixed maturities | (86,153) | (95,829) |
| Purchases of equity securities | (7,151) | (6,788) |
| Mortgage, policy and collateral loans granted | (2,702) | (875) |
| Repayments of mortgage, policy and collateral loans | 1,520 | 1,074 |
| Sales of securities available for sale | 1,949 | 1,058 |
| Maturities of securities available for sale | 2,451 | 2,097 |
| Purchases of securities available for sale | (7,350) | (5,003) |
| Sales of flight equipment | 243 | 1,127 |
| Purchases of flight equipment | (4,243) | (3,299) |
| Change in securities lending collateral | (7,156) | (16,698) |
| Net additions to real estate and other fixed assets | (400) | (337) |
| Sales or distributions of other invested assets | 5,835 | 4,581 |
| Investments in other invested assets | (7,169) | (6,375) |
| Change in short-term investments | 1,992 | 1 |
| Investments in partially owned companies | (3) | (1) |
| Finance receivable originations and purchases | (23,778) | (11,756) |
| Finance receivable principal payments received | 20,413 | 8,830 |
| Net cash used in investing activities | \$ (35,358) | \$ (50,707) |
| Cash flows from financing activities: | | |
| Receipts from policyholders contract deposits | \$ 26,038 | \$ 27,129 |
| Withdrawals from policyholders contract deposits | (17,032) | (11,026) |
| Change in trust deposits and deposits due to banks and other depositors | (94) | 210 |
| Change in commercial paper | 3,171 | 2,712 |
| Proceeds from notes, bonds, loans and mortgages payable | 25,645 | 14,837 |
| Repayments on notes, bonds, loans and mortgages payable | (23,903) | (11,272) |
| Proceeds from guaranteed investment agreements | 6,760 | 4,318 |
| Maturities of guaranteed investment agreements | (4,880) | (3,171) |
| Change in securities lending payable | 7,156 | 16,698 |
| Proceeds from common stock issued | 36 | 90 |
| Cash dividends to shareholders | (641) | (339) |
| Acquisition of treasury stock | (168) | (380) |
| Other net | 9 | 1 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | |
|--|-----------|---------------|-----------|---------------|
| Net cash provided by financing activities | \$ | 22,097 | \$ | 39,807 |
| <hr/> | | | | |
| Supplementary information: | | | | |
| Taxes paid | \$ | 1,466 | \$ | 1,657 |
| <hr/> | | | | |
| Interest paid | \$ | 2,649 | \$ | 2,139 |
| <hr/> | | | | |

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)*(in millions) (unaudited)*

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|-----------------|--------------------------------|-------------------|
| | 2005 (Restated) | 2004 | 2005 (Restated) | 2004 |
| Comprehensive income (loss): | | | | |
| Net income | \$ 8,288 | \$ 5,578 | \$ 4,489 | \$ 3,080 |
| Other comprehensive income (loss): | | | | |
| Unrealized appreciation (depreciation) of investments net of reclassification adjustments | 2,282 | (5,865) | 4,817 | (10,411) |
| Deferred income tax (expense) benefit on above changes | (503) | 2,033 | (1,759) | 3,469 |
| Foreign currency translation adjustments | (826) | 120 | (773) | (182) |
| Applicable income tax benefit (expense) on above changes | 501 | (17) | 497 | 17 |
| Net derivative gains (losses) arising from cash flow hedging activities | 70 | 64 | (80) | 43 |
| Deferred income tax (expense) benefit on above changes | (71) | (13) | 40 | (16) |
| Retirement plan liabilities adjustment, net of tax | (28) | (9) | 2 | 18 |
| Other comprehensive income (loss) | 1,425 | (3,687) | 2,744 | (7,062) |
| Comprehensive income (loss) | \$ 9,713 | \$ 1,891 | \$ 7,233 | \$ (3,982) |

See Accompanying Notes to Consolidated Financial Statements.

Table of Contents

American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Financial Statement Presentation

These statements are unaudited. In the opinion of management, adjustments including normal recurring accruals have been made for a fair statement of the results presented herein. 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 June 30, 2005 and December 31, 2004 and its Consolidated Statement of Income for the three and six month periods ended June 30, 2005 and 2004 and Consolidated Statement of Cash Flows for the six months ended June 30, 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.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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 three and six month periods ended June 30, 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.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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 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 Second 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 \$241 million and \$311 million and by approximately \$465 million and \$437 million for the three and six month periods ended June 30, 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 three and six month periods ended June 30, 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 \$99 million and \$135 million and by approximately \$5 million and \$10 million for the three and six month periods ended June 30, 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.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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

9

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

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.

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 increase other revenues and net income by approximately \$755 million and \$334 million and by approximately \$724 million and \$322 million for the three and six month periods ended June 30, 2005, respectively, and decrease other revenues and net income by approximately \$32 million and \$14 million and by approximately \$50 million and \$18 million for the three and six month periods ended June 30, 2004, respectively.

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 increased net income by approximately \$14 million and \$13 million and by approximately \$18 million and \$18 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and decreased total shareholders' equity by approximately \$543 million and \$534 million as of June 30, 2005 and December 31, 2004, respectively.

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, decreased other revenue by approximately \$13 million and increased other revenue by approximately \$66 million and decreased other revenue by approximately \$47 million and \$73 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and decreased net income by approximately \$31 million and \$20 million and by approximately \$28 million and \$42 million for the three and six month periods ended June 30, 2005 and 2004, respectively. The additional adjustments also decreased total shareholders' equity by approximately \$19 million and \$65 million as of June 30, 2005 and December 31, 2004, respectively.

Income Tax Accounting. During the fourth quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The income tax adjustments decreased income tax expense and increased net income by approximately \$22 million and \$46 million and increased income tax expense and decreased net income by approximately \$15 million and \$28 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and increased total shareholders' equity by approximately \$6 million and decreased total shareholders' equity by approximately \$98 million as of June 30, 2005 and December 31, 2004, respectively.

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.

Table of Contents**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

| | June 30, 2005 | | December 31, 2004 |
|--|---------------------------|-------------------|-------------------|
| | As Previously Reported | As Restated | |
| <i>(in millions) (unaudited)</i> | | | |
| Assets: | | | |
| Investments and financial services assets: | | | |
| Fixed maturities: | | | |
| Bonds available for sale, at market value | \$ 361,100 | \$ 361,100 | \$ 344,399 |
| Bonds held to maturity, at amortized cost | 21,472 | 21,472 | 18,294 |
| Bond trading securities, at market value | 3,579 | 3,579 | 2,984 |
| Equity securities: | | | |
| Common stocks available for sale, at market value | 11,148 | 11,003 | 9,772 |
| Common stocks trading, at market value | 7,074 | 7,074 | 5,894 |
| Preferred stocks, at market value | 2,444 | 2,444 | 2,040 |
| Mortgage loans on real estate, net of allowance | 14,251 | 14,251 | 13,146 |
| Policy loans | 7,100 | 7,100 | 7,035 |
| Collateral and guaranteed loans, net of allowance | 2,215 | 3,295 | 3,303 |
| Financial services assets: | | | |
| Flight equipment primarily under operating leases, net of accumulated depreciation | 35,689 | 35,690 | 32,130 |
| Securities available for sale, at market value | 33,056 | 33,120 | 31,225 |
| Trading securities, at market value | 4,318 | 3,927 | 2,746 |
| Spot commodities | 31 | 454 | 534 |
| Unrealized gain on swaps, options and forward transactions | 21,388 | 21,388 | 22,670 |
| Trading assets | 1,931 | 2,055 | 3,433 |
| Securities purchased under agreements to resell, at contract value | 12,576 | 12,576 | 26,272 |
| Finance receivables, net of allowance | 26,763 | 26,763 | 23,574 |
| Securities lending collateral, at market value (which approximates cost) | 57,128 | 56,325 | 49,169 |
| Other invested assets | 25,001 | 26,311 | 23,559 |
| Short-term investments, at cost | 17,465 | 17,465 | 16,102 |
| Total investments and financial services assets | 665,729 | 667,392 | 638,281 |
| Cash | 1,738 | 1,738 | 2,009 |
| Investment income due and accrued | 5,676 | 5,647 | 5,556 |
| Premiums and insurance balances receivable, net of allowance | 15,313 | 15,806 | 15,622 |
| Reinsurance assets, net of allowance | 19,824 | 19,476 | 19,613 |
| Deferred policy acquisition costs | 30,812 | 30,909 | 29,817 |
| Investments in partially owned companies | 1,310 | 1,389 | 1,495 |
| Real estate and other fixed assets, net of accumulated depreciation | 6,225 | 6,225 | 6,192 |
| Separate and variable accounts | 58,463 | 58,463 | 57,741 |
| Goodwill | 8,423 | 8,378 | 8,556 |
| Income taxes receivable - current | 924 | 772 | 138 |
| Other assets | 14,205 | 14,972 | 16,125 |
| Total assets | \$ 828,642 | \$ 831,167 | \$ 801,145 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

| <i>(in millions) (unaudited)</i> | June 30, 2005 | | December 31, 2004 |
|---|---------------------------|-------------------|-------------------|
| | As Previously Reported | As Restated | |
| Liabilities: | | | |
| Reserve for losses and loss expenses | \$ 65,327 | \$ 64,829 | \$ 61,878 |
| Reserve for unearned premiums | 24,077 | 24,435 | 23,400 |
| Future policy benefits for life and accident and health insurance contracts | 108,208 | 108,192 | 104,740 |
| Policyholders' contract deposits | 225,839 | 225,619 | 216,474 |
| Other policyholders' funds | 10,332 | 10,332 | 10,280 |
| Reserve for commissions, expenses and taxes | 4,754 | 4,748 | 4,629 |
| Insurance balances payable | 3,968 | 3,932 | 3,661 |
| Funds held by companies under reinsurance treaties | 3,780 | 3,780 | 3,404 |
| Deferred income taxes payable | 9,657 | 9,259 | 6,588 |
| Financial services liabilities: | | | |
| Borrowings under obligations of guaranteed investment agreements | 20,799 | 20,799 | 18,919 |
| Securities sold under agreements to repurchase, at contract value | 8,303 | 10,497 | 23,581 |
| Trading liabilities | 2,037 | 2,236 | 2,503 |
| Securities and spot commodities sold but not yet purchased, at market value | 4,343 | 4,870 | 5,404 |
| Unrealized loss on swaps, options and forward transactions | 15,447 | 13,915 | 15,985 |
| Trust deposits and deposits due to banks and other depositors | 4,154 | 4,154 | 4,248 |
| Commercial paper | 8,980 | 8,980 | 6,724 |
| Notes, bonds, loans and mortgages payable | 62,673 | 63,077 | 61,296 |
| Commercial paper | 3,884 | 3,884 | 2,969 |
| Notes, bonds, loans and mortgages payable | 5,274 | 5,274 | 5,502 |
| Liabilities connected to trust preferred stock | 1,489 | 1,489 | 1,489 |
| Separate and variable accounts | 58,463 | 58,463 | 57,741 |
| Minority interest | 5,119 | 5,368 | 4,831 |
| Securities lending payable | 57,128 | 57,128 | 49,972 |
| Other liabilities | 25,532 | 27,098 | 25,055 |
| Total liabilities | 739,567 | 742,358 | 721,273 |
| Preferred shareholders' equity in subsidiary companies | 196 | 196 | 199 |
| Shareholders' equity: | | | |
| Common stock | 6,878 | 6,878 | 6,878 |
| Additional paid-in capital | 2,069 | 2,182 | 2,094 |
| Retained earnings | 71,428 | 70,985 | 63,468 |
| Accumulated other comprehensive income (loss) | 10,805 | 10,869 | 9,444 |
| Treasury stock, at cost | (2,301) | (2,301) | (2,211) |
| Total shareholders' equity | 88,879 | 88,613 | 79,673 |
| Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity | \$ 828,642 | \$ 831,167 | \$ 801,145 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued**Financial Statements** *(continued)***CONSOLIDATED STATEMENT OF INCOME**

| | For the | | For the | For the | | For the |
|--|------------------------|-----------------|------------------|------------------------|-----------------|--------------------|
| | Six Months Ended | | Six Months Ended | Three Months Ended | | Three Months Ended |
| | June 30, 2005 | | June 30, 2004 | June 30, 2005 | | June 30, 2004 |
| <i>(in millions, except per share data)</i> <i>(unaudited)</i> | As Previously Reported | As Restated | | As Previously Reported | As Restated | |
| Revenues: | | | | | | |
| Premiums and other considerations | \$ 35,223 | \$ 35,216 | \$ 32,154 | \$ 17,541 | \$ 17,536 | \$ 16,175 |
| Net investment income | 10,490 | 10,559 | 9,141 | 5,198 | 5,227 | 4,541 |
| Realized capital gains (losses) | 333 | 12 | 3 | 245 | (125) | 89 |
| Other revenues | 7,927 | 9,318 | 6,013 | 3,877 | 5,265 | 3,284 |
| Total revenues | 53,973 | 55,105 | 47,311 | 26,861 | 27,903 | 24,089 |
| Benefits and expenses: | | | | | | |
| Incurred policy losses and benefits | 29,201 | 29,156 | 27,070 | 14,336 | 14,283 | 13,480 |
| Insurance acquisition and other operating expenses | 13,534 | 13,599 | 11,750 | 6,730 | 6,919 | 5,960 |
| Total benefits and expenses | 42,735 | 42,755 | 38,820 | 21,066 | 21,202 | 19,440 |
| Income before income taxes, minority interest and cumulative effect of an accounting change | 11,238 | 12,350 | 8,491 | 5,795 | 6,701 | 4,649 |
| Income taxes (benefits): | | | | | | |
| Current | 1,777 | 1,983 | 2,437 | 790 | 1,015 | 1,092 |
| Deferred | 1,510 | 1,806 | 157 | 884 | 1,068 | 372 |
| | 3,287 | 3,789 | 2,594 | 1,674 | 2,083 | 1,464 |
| Income before minority interest and cumulative effect of an accounting change | 7,951 | 8,561 | 5,897 | 4,121 | 4,618 | 3,185 |
| Minority interest | (275) | (273) | (175) | (129) | (129) | (105) |
| Income before cumulative effect of an accounting change | 7,676 | 8,288 | 5,722 | 3,992 | 4,489 | 3,080 |
| Cumulative effect of an accounting change, net of tax | | | (144) | | | |
| Net income | \$ 7,676 | \$ 8,288 | \$ 5,578 | \$ 3,992 | \$ 4,489 | \$ 3,080 |
| Earnings per common share: | | | | | | |
| Basic | | | | | | |
| Income before cumulative effect of an accounting change | \$ 2.96 | \$ 3.19 | \$ 2.20 | \$ 1.54 | \$ 1.73 | \$ 1.19 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|--------|
| Cumulative effect of an accounting change, net of tax | | | | | | | (0.06) |
| Net income | \$ 2.96 | \$ 3.19 | \$ 2.14 | \$ 1.54 | \$ 1.73 | \$ 1.19 | |
| Diluted | | | | | | | |
| Income before cumulative effect of an accounting change | \$ 2.93 | \$ 3.16 | \$ 2.17 | \$ 1.53 | \$ 1.71 | \$ 1.17 | |
| Cumulative effect of an accounting change, net of tax | | | | | | | (0.06) |
| Net income | \$ 2.93 | \$ 3.16 | \$ 2.11 | \$ 1.53 | \$ 1.71 | \$ 1.17 | |
| Dividends declared per common share | \$ 0.300 | \$ 0.300 | \$ 0.140 | \$ 0.125 | \$ 0.125 | \$ 0.075 | |
| Average shares outstanding: | | | | | | | |
| Basic | 2,596 | 2,596 | 2,609 | 2,596 | 2,596 | 2,608 | |
| Diluted | 2,623 | 2,623 | 2,641 | 2,623 | 2,623 | 2,640 | |

Table of Contents**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**

| | Six Months Ended June 30, 2005 | | Six Months Ended June 30, 2004 |
|---|-----------------------------------|-----------------|--|
| | As Previously Reported | As Restated | |
| <i>(in millions) (unaudited)</i> | | | |
| Net cash provided by operating activities | \$ 13,605 | \$ 13,817 | \$ 11,886 |
| Net cash used in investing activities | (29,244) | (35,358) | (50,707) |
| Net cash provided by financing activities | 16,212 | 22,097 | 39,807 |
| Effect of exchange rate changes on cash | (844) | (827) | 125 |
| Change in cash | (271) | (271) | 1,111 |
| Cash at beginning of period | 2,009 | 2,009 | 922 |
| Cash at end of period | \$ 1,738 | \$ 1,738 | \$ 2,033 |

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

| For the Six Months Ended June 30, 2005 <i>(in millions) (unaudited)</i> | Premiums and Other Considerations | Net Investment Income | Realized Capital Gains (Losses) | Other Revenues | Total Revenues |
|--|---|--------------------------|---------------------------------------|-------------------|-------------------|
| As Previously Reported | \$ 35,223 | \$ 10,490 | \$ 333 | \$ 7,927 | \$ 53,973 |
| Initial Adjustments in the Second Restatement: | | | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | 9 | (202) | 597 | 404 |
| Manufacturers Payment Received by ILFC | | | | 724 | 724 |
| All Other Adjustments Net | 3 | 68 | 6 | 3 | 80 |
| Total Initial Adjustments in the Second Restatement | 3 | 77 | (196) | 1,324 | 1,208 |
| Revenues, as Restated in the Initial Adjustments | 35,226 | 10,567 | 137 | 9,251 | 55,181 |
| Additional Adjustments in the Second Restatement: | | | | | |
| Asset Realization: | | | | | |
| Domestic Brokerage Group (DBG) Issues | (8) | 36 | | | 28 |
| All Other Adjustments Net | (2) | (44) | (125) | 67 | (104) |
| | (10) | (8) | (125) | 67 | (76) |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

Total Additional
Adjustments in the
Second Restatement

| | | | | | | | | | | |
|---|----|--------|----|--------|----|----|----|-------|----|--------|
| Revenues, as Restated in the Second Restatement | \$ | 35,216 | \$ | 10,559 | \$ | 12 | \$ | 9,318 | \$ | 55,105 |
|---|----|--------|----|--------|----|----|----|-------|----|--------|

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

| For the Six Months Ended June 30, 2004 <i>(in millions) (unaudited)</i> | Premiums and Other Considerations | Net Investment Income | Realized Capital Gains (Losses) | Other Revenues | Total Revenues |
|---|---|--------------------------|---------------------------------------|-------------------|-------------------|
| As Previously Reported | \$ 32,460 | \$ 9,376 | \$ (60) | \$ 5,670 | \$ 47,446 |
| Adjustments in the First Restatement: | | | | | |
| Risk Transfer: | | | | | |
| Union Excess | 193 | 130 | (24) | | 299 |
| Other Risk Transfer | (126) | (4) | | | (130) |
| Net Investment Income: | | | | | |
| Covered Calls | | 19 | 41 | | 60 |
| Synthetic Fuel Investment | | (135) | | (98) | (233) |
| Hedge Fund Accounting | | 24 | | (17) | 7 |
| Muni Tender Option Bond Program | | 40 | 19 | | 59 |
| DBG/AIG Capital Corporation Intercompany Dividend | | (50) | | | (50) |
| Top Level Adjustments and Other Directed Entries (other than loss reserves) | 69 | (190) | 43 | 38 | (40) |
| Conversion of Underwriting Losses to Capital Losses | | | 92 | | 92 |
| Asset Realization: | | | | | |
| Other Than Temporary Declines | | | 40 | | 40 |
| Other GAAP Corrections: | | | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | | (83) | (234) | (317) |
| Foreign Currency Translation (FAS 52) | | | (27) | | (27) |
| Life Settlements | (375) | (72) | | | (447) |
| Commutations | 3 | | | | 3 |
| Dollar Roll Transactions | | | (67) | | (67) |
| All Other Adjustments Net | (46) | (72) | | 303 | 185 |
| Total Adjustments in the First Restatement | | | | | |
| | (282) | (310) | 34 | (8) | (566) |
| As Adjusted in the First Restatement | 32,178 | 9,066 | (26) | 5,662 | 46,880 |
| Initial Adjustments in the Second Restatement: | | | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | | 27 | 443 | 470 |
| Manufacturers Payments Received by ILFC | | | | (50) | (50) |
| All Other Adjustments Net | 3 | (4) | | 5 | 4 |
| Total Initial Adjustments in the Second Restatement | | | | | |
| | 3 | (4) | 27 | 398 | 424 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | |
|---|-----------|----------|------|----------|-----------|
| Revenues, as Restated in the Initial Adjustments | 32,181 | 9,062 | 1 | 6,060 | 47,304 |
| Additional Adjustments in the Second Restatement: | | | | | |
| Asset Realization: | | | | | |
| Domestic Brokerage Group (DBG) Issues | (34) | 77 | | | 43 |
| All Other Adjustments Net | 7 | 2 | 2 | (47) | (36) |
| Total Additional Adjustments in the Second Restatement | | | | | |
| | (27) | 79 | 2 | (47) | 7 |
| Revenues, as Restated in the Second Restatement | \$ 32,154 | \$ 9,141 | \$ 3 | \$ 6,013 | \$ 47,311 |

Table of Contents**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 Six Months Ended June 30, 2005 <i>(in millions) (unaudited)</i> | Incurred Policy Losses and Benefits | Insurance Acquisition and Other Operating Expenses | Total Benefits and Expenses |
|--|--|---|--------------------------------|
| As Previously Reported | \$ 29,201 | \$ 13,534 | \$ 42,735 |
| Initial Adjustments in the Second Restatement: | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | (116) | (116) |
| Manufacturers Payments Received by ILFC | | 228 | 228 |
| All Other Adjustments Net | (39) | (61) | (100) |
| <hr/> | | | |
| Total Initial Adjustments in the Second Restatement | (39) | 51 | 12 |
| <hr/> | | | |
| Revenues, as Restated in the Initial Adjustments | 29,162 | 13,585 | 42,747 |
| <hr/> | | | |
| Additional Adjustments in the Second Restatement: | | | |
| Asset Realization: | | | |
| Domestic Brokerage Group (DBG) Issues | (6) | 12 | 6 |
| All Other Adjustments Net | | 2 | 2 |
| <hr/> | | | |
| Total Additional Adjustments in the Second Restatement | (6) | 14 | 8 |
| <hr/> | | | |
| Revenues, as Restated in the Second Restatement | \$ 29,156 | \$ 13,599 | \$ 42,755 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

American International Group, Inc. and Subsidiaries

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

| For the Six Months Ended June 30, 2004 (in millions) (unaudited) | Incurred Policy Losses and Benefits | Insurance Acquisition and Other Operating Expenses | Total Benefits and Expenses |
|--|--|---|--------------------------------|
| As Previously Reported | \$ 27,275 | \$ 11,491 | \$ 38,766 |
| Adjustments in the First Restatement: | | | |
| Risk Transfer: | | | |
| Union Excess | 335 | 24 | 359 |
| Other Risk Transfer | (68) | (24) | (92) |
| Loss Reserves | 90 | | 90 |
| Net Investment Income: | | | |
| DBG/AIG Capital Corporation Intercompany Dividend | | (50) | (50) |
| Top Level Adjustments and Other Directed Entries (other than loss reserves) | 30 | (133) | (103) |
| Conversion of Underwriting Losses to Capital Losses | | (2) | (2) |
| Asset Realization: | | | |
| Domestic Brokerage Group (DBG) Issues | | 14 | 14 |
| Other GAAP Corrections: | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | 11 | 11 |
| Foreign Currency Translation (FAS 52) | | (6) | (6) |
| Life Settlements | (345) | | (345) |
| Deferred Acquisition Costs (DAC) | (130) | 155 | 25 |
| SICO Deferred Compensation | | 28 | 28 |
| Commutations | 3 | | 3 |
| All Other Adjustments Net | (89) | 359 | 270 |
| Total Adjustments in the First Restatement | | | |
| | (174) | 376 | 202 |
| As Adjusted in the First Restatement | 27,101 | 11,867 | 38,968 |
| Initial Adjustments in the Second Restatement: | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | (155) | (155) |
| Manufacturers Payments Received by ILFC | | (22) | (22) |
| All Other Adjustments Net | 6 | 6 | 12 |
| Total Initial Adjustments in the Second Restatement | | | |
| | 6 | (171) | (165) |
| Benefits and Expenses, as Restated in the Initial Adjustments | 27,107 | 11,696 | 38,803 |
| Additional Adjustments in the Second Restatement: | | | |
| Asset Realization: | | | |
| Domestic Brokerage Group (DBG) Issues | (36) | 51 | 15 |
| All Other Adjustments Net | (1) | 3 | 2 |
| Total Additional Adjustments in the Second Restatement | | | |
| | (37) | 54 | 17 |
| Benefits and Expenses, as Restated in the Second Restatement | \$ 27,070 | \$ 11,750 | \$ 38,820 |

Table of Contents**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 Six Months Ended June 30, <i>(in millions) (unaudited)</i> | 2005 | 2004 |
|--|-----------------|-----------------|
| Income Taxes, as Previously Reported | \$ 3,287 | \$ 2,757 |
| Adjustments in the First Restatement: | | |
| Risk Transfer: | | |
| Union Excess | | (21) |
| Other Risk Transfer | | (15) |
| Loss Reserves | | (32) |
| Net Investment Income: | | |
| Covered Calls | | 21 |
| Synthetic Fuel Investment | | (233) |
| Top Level Adjustments and Other Directed Entries (other than loss reserves) | | 22 |
| Asset Realization: | | |
| Domestic Brokerage Group (DBG) Issues | | 17 |
| Other Than Temporary Declines | | 14 |
| Other GAAP Corrections: | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | (115) |
| Accounting for Deferred Taxes | | (14) |
| Foreign Currency Translation (FAS 52) | | (9) |
| Life Settlements | | (36) |
| Deferred Acquisition Costs (DAC) | | (7) |
| All Other Adjustments Net | | 38 |
| Total Adjustments in the First Restatement | | (370) |
| Income Taxes, as Adjusted in the First Restatement | 3,287 | 2,387 |
| Initial Adjustments in the Second Restatement: | | |
| Income Tax Accounting | 135 | 10 |
| All Other Adjustments Net | 431 | 176 |
| Total Initial Adjustments in the Second Restatement | 566 | 186 |
| Income Taxes, as Restated in the Initial Adjustments | 3,853 | 2,573 |
| Additional Adjustments in the Second Restatement: | | |
| Income Tax Accounting | (46) | 28 |
| All Other Adjustments Net | (18) | (7) |
| Total Additional Adjustments in the Second Restatement | (64) | 21 |
| Income Taxes, as Restated in the Second Restatement | \$ 3,789 | \$ 2,594 |

Table of Contents**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 revenue:

| For the Three Months Ended June 30, 2005 <i>(in millions) (unaudited)</i> | Premiums and Other Considerations | Net Investment Income | Realized Capital Gains (Losses) | Other Revenues | Total Revenues |
|--|--------------------------------------|-----------------------------|---------------------------------------|-------------------|-------------------|
| As Previously Reported | \$ 17,541 | \$ 5,198 | \$ 245 | \$ 3,877 | \$ 26,861 |
| Initial Adjustments in the Second Restatement: | | | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | 5 | (305) | 645 | 345 |
| Manufacturers Payments Received by ILFC | | | | 755 | 755 |
| All Other Adjustments Net | 3 | 15 | 6 | | 24 |
| Total Initial Adjustments in the Second Restatement | 3 | 20 | (299) | 1,400 | 1,124 |
| Revenues, as Restated in the Initial Adjustments | 17,544 | 5,218 | (54) | 5,277 | 27,985 |
| Additional Adjustments in the Second Restatement: | | | | | |
| Asset Realization: | | | | | |
| Domestic Brokerage Group (DBG) Issues | (7) | 34 | | | 27 |
| All Other Adjustments Net | (1) | (25) | (71) | (12) | (109) |
| Total Additional Adjustments in the Second Restatement | (8) | 9 | (71) | (12) | (82) |
| Revenues, as Restated in the Second Restatement | \$ 17,536 | \$ 5,227 | \$ (125) | \$ 5,265 | \$ 27,903 |

Table of Contents**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 June 30, 2004 (in millions) (unaudited) | Premiums and Other Considerations | Net Investment Income | Realized Capital Gains (Losses) | Other Revenues | Total Revenues |
|--|---|-----------------------------|---------------------------------------|-------------------|-------------------|
| As Previously Reported | \$ 16,321 | \$ 4,656 | \$ (143) | \$ 2,975 | \$ 23,809 |
| Adjustments in the First Restatement: | | | | | |
| Risk Transfer: | | | | | |
| Union Excess | 96 | 65 | (12) | | 149 |
| Other Risk Transfer | (77) | (2) | | | (79) |
| Net Investment Income: | | | | | |
| Covered Calls | | 9 | 23 | | 32 |
| Synthetic Fuel Investment | | (74) | | (44) | (118) |
| Hedge Fund Accounting | | 11 | | | 11 |
| Muni Tender Option Bond Program | | 19 | 11 | | 30 |
| DBG/AIG Capital Corporation | | | | | |
| Intercompany Dividend | | (25) | | | (25) |
| Top Level Adjustments and Other Directed Entries (other than loss reserves) | 25 | (91) | 21 | 26 | (19) |
| Conversion of Underwriting Losses to Capital Losses | | | 19 | | 19 |
| Other GAAP Corrections: | | | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | | (2) | (154) | (156) |
| Foreign Currency Translation (FAS 52) | | | 47 | | 47 |
| Life Settlements | (179) | (33) | | | (212) |
| Commutations | 43 | | | | 43 |
| Dollar Roll Transactions | | | (105) | | (105) |
| All Other Adjustments Net | (33) | (44) | | 156 | 79 |
| Total Adjustments in the First Restatement | | | | | |
| | (125) | (165) | 2 | (16) | (304) |
| As Adjusted in the First Restatement | 16,196 | 4,491 | (141) | 2,959 | 23,505 |
| Initial Adjustments in the Second Restatement: | | | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | | 222 | 390 | 612 |
| Manufacturers Payments Received by ILFC | | | | (32) | (32) |
| All Other Adjustments Net | 1 | (2) | | 2 | 1 |
| Total Initial Adjustments in the Second Restatement | | | | | |
| | 1 | (2) | 222 | 360 | 581 |
| Revenues, as Restated in the Initial Adjustments | 16,197 | 4,489 | 81 | 3,319 | 24,086 |
| Additional Adjustments in the Second Restatement: | | | | | |
| Asset Realization: | | | | | |
| Domestic Brokerage Group (DBG) Issues | (27) | 51 | | | 24 |
| All Other Adjustments Net | 5 | 1 | 8 | (35) | (21) |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | |
|---|-----------|----------|-------|----------|-----------|
| Total Additional Adjustments in the Second Restatement | (22) | 52 | 8 | (35) | 3 |
| Revenues, as Restated in the Second Restatement | \$ 16,175 | \$ 4,541 | \$ 89 | \$ 3,284 | \$ 24,089 |

Table of Contents**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 June 30, 2005 <i>(in millions) (unaudited)</i> | Incurred Policy Losses and Benefits | Insurance Acquisition and Other Operating Expenses | Total Benefits and Expenses |
|---|--|---|--|
| As Previously Reported | \$ 14,336 | \$ 6,730 | \$ 21,066 |
| Initial Adjustments in the Second Restatement: | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | (51) | (51) |
| Manufacturers Payments Received by ILFC | | 240 | 240 |
| All Other Adjustments Net | (42) | (12) | (54) |
| Total Initial Adjustments in the Second Restatement | (42) | 177 | 135 |
| Benefits and Expenses, as Restated in the Initial Adjustments | 14,294 | 6,907 | 21,201 |
| Additional Adjustments in the Second Restatement: | | | |
| Asset Realization: | | | |
| Domestic Brokerage Group (DBG) Issues | (7) | 11 | 4 |
| All Other Adjustments Net | (4) | 1 | (3) |
| Total Additional Adjustments in the Second Restatement | (11) | 12 | 1 |
| Benefits and Expenses, as Restated in the Second Restatement | \$ 14,283 | \$ 6,919 | \$ 21,202 |

| For the Three Months Ended June 30, 2004 <i>(in millions) (unaudited)</i> | Incurred Policy Losses and Benefits | Insurance Acquisition and Other Operating Expenses | Total Benefits and Expenses |
|---|--|---|--|
| As Previously Reported | \$ 13,541 | \$ 5,879 | \$ 19,420 |
| Adjustments in the First Restatement: | | | |
| Risk Transfer: | | | |
| Union Excess | 167 | 12 | 179 |
| Other Risk Transfer | (21) | (8) | (29) |
| Loss Reserves | 30 | | 30 |
| Net Investment Income: | | | |
| DBG/AIG Capital Corporation Intercompany Dividend | | (25) | (25) |
| Top Level Adjustments and Other Directed Entries (other than loss reserves) | 5 | (65) | (60) |
| Conversion of Underwriting Losses to Capital Losses | | (1) | (1) |
| Asset Realization: | | | |
| Domestic Brokerage Group (DBG) Issues | | (33) | (33) |
| Other GAAP Corrections: | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | 31 | 31 |
| Foreign Currency Translation (FAS 52) | | (8) | (8) |
| Life Settlements | (165) | | (165) |
| Deferred Acquisition Costs (DAC) | (56) | 50 | (6) |
| SICO Deferred Compensation | | 14 | 14 |
| Commutations | 43 | | 43 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | |
|---|-------------|-------------|-------------|
| All Other Adjustments Net | (40) | 182 | 142 |
| Total Adjustments in the First Restatement | (37) | 149 | 112 |
| As Adjusted in the First Restatement | 13,504 | 6,028 | 19,532 |
| Initial Adjustments in the Second Restatement: | | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | (89) | (89) |
| Manufacturers Payments Received by ILFC | | (11) | (11) |
| All Other Adjustments Net | 4 | 5 | 9 |
| Total Initial Adjustments in the Second Restatement | 4 | (95) | (91) |
| Benefits and Expenses, as Restated in the Initial Adjustments | 13,508 | 5,933 | 19,441 |
| Additional Adjustments in the Second Restatement: | | | |
| Asset Realization: | | | |
| Domestic Brokerage Group (DBG) Issues | (29) | 25 | (4) |
| All Other Adjustments Net | 1 | 2 | 3 |
| Total Additional Adjustments in the Second Restatement | (28) | 27 | (1) |
| Benefits and Expenses, as Restated in the Second Restatement | \$ 13,480 | \$ 5,960 | \$ 19,440 |

Table of Contents**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 June 30, <i>(in millions) (unaudited)</i> | 2005 | 2004 |
|--|-----------------|-----------------|
| Income Taxes, as Previously Reported | \$ 1,674 | \$ 1,401 |
| Adjustments in the First Restatement: | | |
| Risk Transfer: | | |
| Union Excess | | (10) |
| Other Risk Transfer | | (17) |
| Loss Reserves | | (11) |
| Net Investment Income: | | |
| Covered Calls | | 11 |
| Synthetic Fuel Investment | | (118) |
| Top Level Adjustments and Other Directed Entries (other than loss reserves) | | 14 |
| Asset Realization: | | |
| Domestic Brokerage Group (DBG) Issues | | 12 |
| Other GAAP Corrections: | | |
| Accounting for Derivatives (FAS 133 Hedge Accounting) | | (66) |
| Accounting for Deferred Taxes | | (10) |
| Foreign Currency Translation (FAS 52) | | 17 |
| Life Settlements | | (16) |
| Deferred Acquisition Costs (DAC) | | 2 |
| All Other Adjustments Net | | 9 |
| Total Adjustments in the First Restatement | | (183) |
| Income Taxes, as Adjusted in the First Restatement | 1,674 | 1,218 |
| Initial Adjustments in the Second Restatement: | | |
| Income Tax Accounting | 99 | 5 |
| All Other Adjustments Net | 366 | 227 |
| Total Initial Adjustments in the Second Restatement | 465 | 232 |
| Income Taxes, as Restated in the Initial Adjustments | 2,139 | 1,450 |
| Additional Adjustments in the Second Restatement: | | |
| Income Tax Accounting | (22) | 15 |
| All Other Adjustments Net | (34) | (1) |
| Total Additional Adjustments in the Second Restatement | (56) | 14 |
| Income Taxes, as Restated in the Second Restatement | \$ 2,083 | \$ 1,464 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

American International Group, Inc. and Subsidiaries

3. Segment Information

The following table summarizes the operations by major operating segment for the six months and quarter ended June 30, 2005 and 2004:

| Operating Segments (in millions) (unaudited) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| Revenues^(a): | | | | |
| General Insurance ^(b) | \$ 22,624 | \$ 20,331 | \$ 11,405 | \$ 10,234 |
| Life Insurance & Retirement Services ^(c) | 23,292 | 21,280 | 11,517 | 10,795 |
| Financial Services ^(d) | 6,214 | 3,473 | 3,778 | 1,659 |
| Asset Management ^(e) | 2,596 | 2,254 | 1,219 | 1,204 |
| Other | 379 | (27) | (16) | 197 |
| Consolidated | \$ 55,105 | \$ 47,311 | \$ 27,903 | \$ 24,089 |
| Operating income^{(a)(f)}: | | | | |
| General Insurance | \$ 3,527 | \$ 2,914 | \$ 1,885 | \$ 1,472 |
| Life Insurance & Retirement Services | 4,505 | 4,068 | 2,324 | 2,319 |
| Financial Services | 3,259 | 899 | 2,214 | 315 |
| Asset Management | 1,114 | 965 | 524 | 529 |
| Other ^(g) | (55) | (355) | (246) | 14 |
| Consolidated | \$ 12,350 | \$ 8,491 | \$ 6,701 | \$ 4,649 |

(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 guaranteed investment contracts (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 six months and quarter ended June 30, 2005 and 2004:

| General Insurance (in millions) (unaudited) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| Revenues: | | | | |
| Domestic Brokerage Group | \$ 12,530 | \$ 11,108 | \$ 6,241 | \$ 5,577 |
| Transatlantic | 1,930 | 1,944 | 948 | 971 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | |
|---|-------|-------|-------|-------|
| Personal Lines | 2,380 | 2,197 | 1,209 | 1,109 |
| Mortgage Guaranty | 342 | 319 | 173 | 157 |
| Foreign General | 5,437 | 4,747 | 2,835 | 2,410 |
| Reclassifications, Eliminations and Other | 5 | 16 | (1) | 10 |

| | | | | |
|-------------------------|-----------|-----------|-----------|-----------|
| Total General Insurance | \$ 22,624 | \$ 20,331 | \$ 11,405 | \$ 10,234 |
|-------------------------|-----------|-----------|-----------|-----------|

| | | | | |
|---|----------------------------|----------|-----------------------|--------|
| Operating Income: | | | | |
| Domestic Brokerage Group | \$ 1,518 ^{(a)(b)} | \$ 1,126 | \$ 805 ^(b) | \$ 570 |
| Transatlantic | 213 | 231 | 99 | 114 |
| Personal Lines | 211 | 195 | 102 | 99 |
| Mortgage Guaranty | 213 | 212 | 109 | 116 |
| Foreign General | 1,367 | 1,134 | 771 | 563 |
| Reclassifications, Eliminations and Other | 5 | 16 | (1) | 10 |

| | | | | |
|-------------------------|----------|----------|----------|----------|
| Total General Insurance | \$ 3,527 | \$ 2,914 | \$ 1,885 | \$ 1,472 |
|-------------------------|----------|----------|----------|----------|

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

(b) Includes \$100 million accrual in the second quarter of 2005 to cover current estimate of the liability relating to policies of workers compensation insurance written between 1985 and 1996.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

American International Group, Inc. and Subsidiaries

3. Segment Information (continued)

The following table summarizes AIG's Life Insurance & Retirement Services operations by major internal reporting unit for the six months and quarter ended June 30, 2005 and 2004:

| Life Insurance & Retirement Services (in millions) (unaudited) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| Revenues^(a): | | | | |
| Foreign: | | | | |
| AIA, AIRCO and Nan Shan ^(b) | \$ 7,924 | \$ 7,526 | \$ 3,858 | \$ 3,751 |
| ALICO, AIG Star Life and AIG Edison Life ^(c) | 7,128 | 5,925 | 3,609 | 3,160 |
| Philamlife and Other | 257 | 229 | 127 | 112 |
| Domestic: | | | | |
| AGLA and AG Life ^(d) | 4,502 | 4,431 | 2,114 | 2,309 |
| VALIC, AIG Annuity and AIG SunAmerica ^(e) | 3,481 | 3,169 | 1,809 | 1,463 |
| Total Life Insurance & Retirement Services | \$ 23,292 | \$ 21,280 | \$ 11,517 | \$ 10,795 |
| Operating Income: | | | | |
| Foreign: | | | | |
| AIA, AIRCO and Nan Shan ^(b) | \$ 1,237 | \$ 1,239 | \$ 649 | \$ 712 |
| ALICO, AIG Star Life and AIG Edison Life ^(c) | 1,394 | 1,073 | 798 | 793 |
| Philamlife and Other | 33 | 43 | 17 | 15 |
| Domestic: | | | | |
| AGLA and AG Life ^(d) | 706 | 733 | 240 | 450 |
| VALIC, AIG Annuity and AIG SunAmerica ^(e) | 1,135 | 980 | 620 | 349 |
| Total Life Insurance & Retirement Services | \$ 4,505 | \$ 4,068 | \$ 2,324 | \$ 2,319 |

(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).

Table of Contents**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 six months and quarter ended June 30, 2005 and 2004:

| Financial Services (in millions) (unaudited) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| Revenues^(a): | | | | |
| Aircraft Finance ^(b) | \$ 1,718 | \$ 1,512 | \$ 891 | \$ 778 |
| Capital Markets ^{(c)(d)} | 2,731 | 492 | 1,975 | 131 |
| Consumer Finance ^(e) | 1,724 | 1,416 | 891 | 723 |
| Other | 41 | 53 | 21 | 27 |
| Total Financial Services | \$ 6,214 | \$ 3,473 | \$ 3,778 | \$ 1,659 |
| Operating income(loss)^(a): | | | | |
| Aircraft Finance | \$ 311 | \$ 303 | \$ 124 | \$ 131 |
| Capital Markets ^(d) | 2,456 | 177 | 1,836 | (37) |
| Consumer Finance | 479 | 385 | 248 | 202 |
| Other | 13 | 34 | 6 | 19 |
| Total Financial Services | \$ 3,259 | \$ 899 | \$ 2,214 | \$ 315 |

(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 six months and second quarter ended June 30, 2005 and 2004, the effect was \$(49) million and \$(64) million, and \$(11) million and \$(31) million, respectively, in operating income for Aircraft Finance and \$2.16 billion and \$1.70 billion, and \$(151) million and \$(234) million in both revenues and operating income, respectively, for Capital Markets (AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries).

(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 included in income taxes on the consolidated statement of income. The amount of such tax credits and benefits for the first six months and second quarter ended June 30, 2005 and 2004 are \$40 million and \$21 million, and \$64 million and \$29 million, respectively.

(e) Revenues were primarily finance charges.

The following table summarizes AIG's Asset Management revenues and operating income for the six months and quarter ended June 30, 2005 and 2004:

| Asset Management (in millions) (unaudited) | Six Months Ended June 30, | | Three Months Ended June 30, | |
|--|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| Revenues: | | | | |
| Guaranteed investment contracts | \$ 1,799 | \$ 1,517 | \$ 903 | \$ 780 |
| Institutional Asset Management | 497 | 481 | 178 | 294 |
| Brokerage Services and Mutual Funds | 125 | 123 | 62 | 62 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | |
|--|----------|----------|----------|----------|
| Other | 175 | 133 | 76 | 68 |
| Total Asset Management | \$ 2,596 | \$ 2,254 | \$ 1,219 | \$ 1,204 |
| Operating income: | | | | |
| Guaranteed investment contracts ^(a) | \$ 645 | \$ 654 | \$ 326 | \$ 359 |
| Institutional Asset Management ^(b) | 269 | 146 | 108 | 87 |
| Brokerage Services and Mutual Funds | 30 | 37 | 17 | 17 |
| Other | 170 | 128 | 73 | 66 |
| Total Asset Management | \$ 1,114 | \$ 965 | \$ 524 | \$ 529 |

(a) The effect of hedging activities that do not qualify for hedge accounting treatment under FAS 133 was \$109 million and \$151 million for the first six months of 2005 and 2004, respectively, and \$47 million and \$87 million for the second 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 six months and second quarter ended June 30, 2005 and 2004, operating income includes \$112 million and \$37 million, and \$32 million and \$28 million, respectively, of third-party limited partner earnings offset as an expense in Minority interest.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| <i>(in millions, except per share data) (unaudited)</i> | | | | |
| Numerator for basic earnings per share: | | | | |
| Income before cumulative effect of an accounting change | \$ 8,288 | \$ 5,722 | \$ 4,489 | \$ 3,080 |
| Cumulative effect of an accounting change, net of tax | | (144) | | |
| Net income applicable to common stock | \$ 8,288 | \$ 5,578 | \$ 4,489 | \$ 3,080 |
| Denominator for basic earnings per share: | | | | |
| Average shares outstanding used in the computation of per share earnings: | | | | |
| Common stock issued | 2,752 | 2,752 | 2,752 | 2,752 |
| Common stock in treasury | (156) | (143) | (156) | (144) |
| Average shares outstanding basic | 2,596 | 2,609 | 2,596 | 2,608 |
| Numerator for diluted earnings per share: | | | | |
| Income before cumulative effect of an accounting change | \$ 8,288 | \$ 5,722 | \$ 4,489 | \$ 3,080 |
| Cumulative effect of an accounting change, net of tax | | (144) | | |
| Net income applicable to common stock | 8,288 | 5,578 | 4,489 | 3,080 |
| Interest on contingently convertible bonds, net of tax ^(a) | 5 | 6 | 2 | 3 |
| Adjusted net income applicable to common stock ^(a) | \$ 8,293 | \$ 5,584 | \$ 4,491 | \$ 3,083 |
| Denominator for diluted earnings per share: | | | | |
| Average shares outstanding | 2,596 | 2,609 | 2,596 | 2,608 |
| Incremental shares from potential common stock: | | | | |
| Average number of shares arising from outstanding employee stock plans (treasury stock method) ^(b) | 18 | 23 | 18 | 23 |
| Contingently convertible bonds ^(a) | 9 | 9 | 9 | 9 |
| Adjusted average shares outstanding diluted ^(d) | 2,623 | 2,641 | 2,623 | 2,640 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

4. Earnings Per Share *(continued)*

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|------------------------------|--------------------|--------------------------------|--------------------|
| | 2005 (Restated) | 2004 (Restated) | 2005 (Restated) | 2004 (Restated) |
| <i>(in millions, except per share data) (unaudited)</i> | | | | |
| Earnings per share: | | | | |
| Basic: | | | | |
| Income before cumulative effect of an accounting change | \$ 3.19 | \$ 2.20 | \$ 1.73 | \$ 1.19 |
| Cumulative effect of an accounting change, net of tax | | (0.06) | | |
| Net income | \$ 3.19 | \$ 2.14 | \$ 1.73 | \$ 1.19 |
| Diluted: | | | | |
| Income before cumulative effect of an accounting change | \$ 3.16 | \$ 2.17 | \$ 1.71 | \$ 1.17 |
| Cumulative effect of an accounting change, net of tax | | (0.06) | | |
| Net income | \$ 3.16 | \$ 2.11 | \$ 1.71 | \$ 1.17 |

(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 issuable pursuant to employee stock plans were not included in the computation of diluted earnings per share where the exercise price of the options exceeded the average market price and would have been antidilutive. The number of shares excluded were 23 million and 8 million for the first six 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 was approximately \$0.01 per share for the first six months of 2005 and 2004, and less than \$0.005 per share for the second quarter of 2005 and 2004.

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, was at the sole discretion of SICO's Board of Directors. None of the costs of the various benefits provided under the SICO Plans have 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 may permit an early payout 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 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 \$67 million and \$28 million for the six months ended June 30, 2005 and 2004, respectively.

6. Ownership and Transactions With Related Parties

(a) Ownership: C.V. Starr & Co., Inc. (Starr), a private holding company, The Starr Foundation, and SICO, a private holding company, owned in the aggregate approximately 16 percent of the voting stock of AIG at June 30, 2005. Five directors of AIG served as directors of Starr and SICO as of December 31, 2004. Since June 8, 2005, no director of AIG has served as a director of Starr or SICO.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

6. Ownership and Transactions With Related Parties *(continued)*

(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 June 30, 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 six months ended June 30, 2005 and 2004 from Capital Markets operations were \$2.73 billion and \$492 million, respectively.

(c) At June 30, 2005, ILFC had committed to purchase 310 new and used aircraft deliverable from 2005 through 2010 at an estimated aggregate purchase price of \$20.2 billion and had options to purchase 12 new aircraft deliverable through 2009 at an estimated aggregate purchase price of \$988 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 June 30, 2005 (\$3.41 billion gross; \$1.45 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.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

(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 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 deriva-

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

7. Commitments and Contingent Liabilities *(continued)*

tive 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 \$353 million as of June 30, 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.

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),

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

7. Commitments and Contingent Liabilities *(continued)*

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 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.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

7. Commitments and Contingent Liabilities *(continued)*

(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 invest in coal synthetic fuel production facilities. The sale of coal synthetic fuel produced by these 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 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) As a result of pending actions against AIG arising out of the liability of certain Domestic Brokerage Group (DBG) companies for taxes, assessments, and surcharges for policies of workers compensation insurance written between 1985 and 1996, AIG established a reserve in the second quarter of 2005 of \$100 million (including interest) to cover estimated liabilities to various states, guarantee funds, and residual market facilities (and the members thereof) relating to these actions.

(n) 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.

Table of Contents**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 six months and second quarter ended June 30, 2005 and 2004:

| <i>(in millions)</i> | Pensions | | | Postretirement | | |
|---|----------------|--------------|---------------|----------------|-------------|--------------|
| | Non-U.S. Plans | U.S. Plans | Total | Non-U.S. Plans | U.S. Plans | Total |
| Six Months Ended June 30, 2005 | | | | | | |
| Components of net period benefit cost: | | | | | | |
| Service cost | \$ 37 | \$ 52 | \$ 89 | \$ 2 | \$ 3 | \$ 5 |
| Interest cost | 16 | 74 | 90 | 1 | 7 | 8 |
| Expected return on assets | (11) | (82) | (93) | | | |
| Amortization of prior service cost | (5) | (2) | (7) | | (3) | (3) |
| FAS 88 loss due to settlements | 3 | | 3 | | | |
| Amortization of transition liability | 1 | | 1 | | | |
| Recognized actuarial loss | 11 | 33 | 44 | | 1 | 1 |
| Net period benefit cost | \$ 52 | \$ 75 | \$ 127 | \$ 3 | \$ 8 | \$ 11 |
| Three Months Ended June 30, 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) | | (3) | | (2) | (2) |
| FAS 88 loss due to settlements | 1 | | 1 | | | |
| Recognized actuarial loss | 6 | 16 | 22 | | 1 | 1 |
| Net period benefit cost | \$ 26 | \$ 38 | \$ 64 | \$ 1 | \$ 5 | \$ 6 |
| Six Months Ended June 30, 2004 | | | | | | |
| Components of net period benefit cost: | | | | | | |
| Service cost | \$ 30 | \$ 46 | \$ 76 | \$ | \$ 2 | \$ 2 |
| Interest cost | 16 | 80 | 96 | | 8 | 8 |
| Expected return on assets | (10) | (86) | (96) | | | |
| Amortization of prior service cost | (1) | 2 | 1 | | (3) | (3) |
| Amortization of transitional liability | 1 | | 1 | | | |
| Recognized actuarial loss | 10 | 28 | 38 | | 1 | 1 |
| Net period benefit cost | \$ 46 | \$ 70 | \$ 116 | \$ | \$ 8 | \$ 8 |
| Three Months Ended June 30, 2004 | | | | | | |
| Components of net period benefit cost: | | | | | | |
| Service cost | \$ 15 | \$ 23 | \$ 38 | \$ | \$ 1 | \$ 1 |
| Interest cost | 8 | 40 | 48 | | 4 | 4 |
| Expected return on assets | (5) | (43) | (48) | | | |
| Amortization of prior service cost | | 1 | 1 | | (2) | (2) |
| Amortization of transitional liability | | | | | | |
| Recognized actuarial loss | 5 | 14 | 19 | | 1 | 1 |

| | | | | | | | | | | |
|-------------------------|----|----|----|----|----|----|----|---|----|---|
| 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

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

9. Recent Accounting Standards *(continued)*

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 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, the 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 FIN 46R-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 Emerging Issues Task Force (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,

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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: Evalua-

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

9. Recent Accounting Standards *(continued)*

tion 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 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.

Table of Contents**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**

| June 30, 2005 (Restated) <i>(in millions) (unaudited)</i> | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|-----------------------|-------------------------------|---------------------|-----------------------------|
| Assets: | | | | | |
| Invested assets | \$ 863 | \$ | \$ 679,841 | \$ (13,312) | \$ 667,392 |
| Cash | 71 | | 1,667 | | 1,738 |
| Carrying value of subsidiaries and partially owned companies, at equity | 91,285 | 27,755 | 5,912 | (123,563) | 1,389 |
| Other assets | 2,949 | 2,817 | 155,351 | (469) | 160,648 |
| Total assets | \$ 95,168 | \$ 30,572 | \$ 842,771 | \$ (137,344) | \$ 831,167 |
| Liabilities: | | | | | |
| Insurance liabilities | \$ 384 | \$ | \$ 445,547 | \$ (64) | \$ 445,867 |
| Debt | 3,655 | 2,184 | 110,381 | (12,717) | 103,503 |
| Other liabilities | 2,516 | 4,629 | 186,993 | (1,150) | 192,988 |
| Total liabilities | 6,555 | 6,813 | 742,921 | (13,931) | 742,358 |
| Preferred shareholders' equity in subsidiary companies | | | 196 | | 196 |
| Total shareholders' equity | 88,613 | 23,759 | 99,654 | (123,413) | 88,613 |
| Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity | \$ 95,168 | \$ 30,572 | \$ 842,771 | \$ (137,344) | \$ 831,167 |

| December 31, 2004 <i>(in millions) (unaudited)</i> | 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 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | | | | | |
|--|----|--------|-----------|--------|------------|----|-----------|----|---------|
| 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 |

Table of Contents**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**

| Six Months Ended June 30, 2005 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|------------------------|--------------------------|--------------|--------------------------|
| Operating income (loss) | \$ 140 ^(a) | \$ (76) ^(b) | \$ 12,286 ^(c) | \$ | \$ 12,350 ^(d) |
| Equity in undistributed net income of consolidated subsidiaries | 7,430 | 1,291 | | (8,721) | |
| Dividend income from consolidated subsidiaries | 928 | | | (928) | |
| Income taxes (benefits) | 210 | (26) | 3,605 | | 3,789 |
| Minority interest | | | (273) | | (273) |
| Net income (loss) | \$ 8,288 | \$ 1,241 | \$ 8,408 | \$ (9,649) | \$ 8,288 |

| Six Months Ended June 30, 2004 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|------------------------|-------------------------|--------------|-------------------------|
| Operating income (loss) | \$ (38) ^(e) | \$ (41) ^(f) | \$ 8,570 ^(g) | \$ | \$ 8,491 ^(h) |
| Equity in undistributed net income of consolidated subsidiaries | 5,236 | 1,120 | | (6,356) | |
| Dividend income from consolidated subsidiaries | 641 | 40 | | (681) | |
| Income taxes (benefits) | 261 | (14) | 2,347 | | 2,594 |
| Minority interest | | | (175) | | (175) |
| Cumulative effect of an accounting change, net of tax | | | (144) | | (144) |
| Net income (loss) | \$ 5,578 | \$ 1,133 | \$ 5,904 | \$ (7,037) | \$ 5,578 |

(a) Includes other income (deductions) net and other realized capital gains (losses) of \$(147) million for the six months ended June 30, 2005.
(b) Includes other income (deductions) net and other realized capital gains (losses) of \$(76) million for the six months ended June 30, 2005.
(c) Includes other income (deductions) net and other realized capital gains (losses) of \$168 million for the six months ended June 30, 2005.
(d) Includes other income (deductions) net and other realized capital gains (losses) of \$(55) million for the six months ended June 30, 2005.
(e) Includes other income (deductions) net and other realized capital gains (losses) of \$(173) million for the six months ended June 30, 2004.
(f) Includes other income (deductions) net and other realized capital gains (losses) of \$(41) million for the six months ended June 30, 2004.
(g) Includes other income (deductions) net and other realized capital gains (losses) of \$(141) million for the six months ended June 30, 2004.
(h) Includes other income (deductions) net and other realized capital gains (losses) of \$(355) million for the six months ended June 30, 2004.

| Three Months Ended June 30, 2005 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|------------------------|-------------------------|--------------|-------------------------|
| Operating income (loss) | \$ 150 ^(a) | \$ (40) ^(b) | \$ 6,591 ^(c) | \$ | \$ 6,701 ^(d) |
| Equity in undistributed net income of consolidated subsidiaries | 3,784 | 590 | | (4,374) | |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | |
|--|-----------------|---------------|-----------------|-------------------|-----------------|
| Dividend income from consolidated subsidiaries | 657 | | | (657) | |
| Income taxes (benefits) | 102 | (14) | 1,995 | | 2,083 |
| Minority interest | | | (129) | | (129) |
| Net income (loss) | \$ 4,489 | \$ 564 | \$ 4,467 | \$ (5,031) | \$ 4,489 |

| Three Months Ended June 30, 2004 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|------------------------|-------------------------|--------------|-------------------------|
| Operating income (loss) | \$ (126) ^(e) | \$ (11) ^(f) | \$ 4,786 ^(g) | \$ | \$ 4,649 ^(h) |
| Equity in undistributed net income of consolidated subsidiaries | 2,977 | 542 | | (3,519) | |
| Dividend income from consolidated subsidiaries | 319 | 16 | | (335) | |
| Income taxes (benefits) | 90 | (4) | 1,378 | | 1,464 |
| Minority interest | | | (105) | | (105) |
| Net income (loss) | \$ 3,080 | \$ 551 | \$ 3,303 | \$ (3,854) | \$ 3,080 |

(a) Includes other income (deductions) net and other realized capital gains (losses) of \$(44) million for the three months ended June 30, 2005.
(b) Includes other income (deductions) net and other realized capital gains (losses) of \$(40) million for the three months ended June 30, 2005.
(c) Includes other income (deductions) net and other realized capital gains (losses) of \$(162) million for the three months ended June 30, 2005.
(d) Includes other income (deductions) net and other realized capital gains (losses) of \$(246) million for the three months ended June 30, 2005.
(e) Includes other income (deductions) net and other realized capital gains (losses) of \$(216) million for the three months ended June 30, 2004.
(f) Includes other income (deductions) net and other realized capital gains (losses) of \$(11) million for the three months ended June 30, 2004.
(g) Includes other income (deductions) net and other realized capital gains (losses) of \$241 million for the three months ended June 30, 2004.
(h) Includes other income (deductions) net and other realized capital gains (losses) of \$14 million for the three months ended June 30, 2004.

Table of Contents**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**

| Six Months Ended June 30, 2005 (Restated) <i>(in millions) (unaudited)</i> | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Consolidated AIG |
|---|---|---------------|-----------------------|---------------------|
| Net cash provided by operating activities | \$ 721 | \$ 642 | \$ 12,454 | \$ 13,817 |
| Cash flows from investing: | | | | |
| Invested assets disposed | 158 | | 110,586 | 110,744 |
| Invested assets acquired | | | (145,702) | (145,702) |
| Other | (173) | (270) | 43 | (400) |
| Net cash used in investing activities | (15) | (270) | (35,073) | (35,358) |
| Cash flows from financing activities: | | | | |
| Change in debts | (35) | (299) | 7,127 | 6,793 |
| Other | (657) | (73) | 16,034 | 15,304 |
| Net cash (used in) provided by financing activities | (692) | (372) | 23,161 | 22,097 |
| Effect of exchange rate changes on cash | 40 | | (867) | (827) |
| Change in cash | 54 | | (325) | (271) |
| Cash at beginning of period | 17 | | 1,992 | 2,009 |
| Cash at end of period | \$ 71 | \$ | \$ 1,667 | \$ 1,738 |

| Six Months Ended June 30, 2004 (Restated) <i>(in millions) (unaudited)</i> | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Consolidated AIG |
|---|---|---------------|-----------------------|---------------------|
| Net cash provided by operating activities | \$ 891 | \$ 550 | \$ 10,445 | \$ 11,886 |
| Cash flows from investing: | | | | |
| Invested assets disposed | 184 | | 96,069 | 96,253 |
| Invested assets acquired | (176) | | (146,447) | (146,623) |
| Other | (192) | (362) | 217 | (337) |
| Net cash used in investing activities | (184) | (362) | (50,161) | (50,707) |
| Cash flows from financing activities: | | | | |
| Change in debts | (26) | (150) | 7,600 | 7,424 |
| Other | (572) | (38) | 32,993 | 32,383 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | |
|---|-------|-------|----------|----------|
| Net cash (used in) provided by financing activities | (598) | (188) | 40,593 | 39,807 |
| Effect of exchange rate changes on cash | (110) | | 235 | 125 |
| Change in cash | (1) | | 1,112 | 1,111 |
| Cash at beginning of period | 19 | | 903 | 922 |
| Cash at end of period | \$ 18 | \$ | \$ 2,015 | \$ 2,033 |

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

AIG Liquidity Corp.:**Condensed Consolidating Balance Sheet**

| June 30, 2005 (Restated) <i>(in millions) (unaudited)</i> | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---------------------------|-----------------------|---------------------|---------------------|
| Assets: | | | | | |
| Invested assets | \$ 863 | \$ * | \$ 679,841 | \$ (13,312) | \$ 667,392 |
| Cash | 71 | * | 1,667 | | 1,738 |
| Carrying value of subsidiaries and partially owned companies, at equity | 91,285 | | 33,667 | (123,563) | 1,389 |
| Other assets | 2,949 | * | 158,168 | (469) | 160,648 |
| Total assets | \$ 95,168 | \$ * | \$ 873,343 | \$ (137,344) | \$ 831,167 |
| Liabilities: | | | | | |
| Insurance liabilities | \$ 384 | \$ | \$ 445,547 | \$ (64) | \$ 445,867 |
| Debt | 3,655 | * | 112,565 | (12,717) | 103,503 |
| Other liabilities | 2,516 | * | 191,622 | (1,150) | 192,988 |
| Total liabilities | 6,555 | * | 749,734 | (13,931) | 742,358 |
| Preferred shareholders' equity in subsidiary companies | | | 196 | | 196 |
| Total shareholders' equity | 88,613 | * | 123,413 | (123,413) | 88,613 |
| Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity | \$ 95,168 | \$ * | \$ 873,343 | \$ (137,344) | \$ 831,167 |

* Amounts significantly less than \$1 million.

| December 31, 2004 <i>(in millions) (unaudited)</i> | 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 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | | | |
|--|----|--------|------|------------|--------------|------------|
| 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 |
| <hr/> | | | | | | |
| Total liabilities | | 5,123 | * | 729,682 | (13,532) | 721,273 |
| <hr/> | | | | | | |
| Preferred shareholders' equity in subsidiary companies | | | | 199 | | 199 |
| Total shareholders' equity | | 79,673 | * | 118,254 | (118,254) | 79,673 |
| <hr/> | | | | | | |
| 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.

Table of Contents**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**

| Six Months Ended June 30, 2005 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|---------------------------|--------------------------|--------------|--------------------------|
| Operating income | \$ 140 ^(a) | \$ * | \$ 12,210 ^(b) | \$ | \$ 12,350 ^(c) |
| Equity in undistributed net income of consolidated subsidiaries | 7,430 | | 1,291 | (8,721) | |
| Dividend income from consolidated subsidiaries | 928 | | | (928) | |
| Income taxes | 210 | * | 3,579 | | 3,789 |
| Minority interest | | | (273) | | (273) |
| Net income (loss) | \$ 8,288 | \$ * | \$ 9,649 | \$ (9,649) | \$ 8,288 |

*Amounts significantly less than \$1 million.

| Six Months Ended June 30, 2004 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|---------------------------|-------------------------|--------------|-------------------------|
| Operating income (loss) | \$ (38) ^(d) | \$ * | \$ 8,529 ^(e) | \$ | \$ 8,491 ^(f) |
| Equity in undistributed net income of consolidated subsidiaries | 5,236 | | 1,120 | (6,356) | |
| Dividend income from consolidated subsidiaries | 641 | | 40 | (681) | |
| Income taxes | 261 | * | 2,333 | | 2,594 |
| Minority interest | | | (175) | | (175) |
| Cumulative effect of an accounting change, net of tax | | | (144) | | (144) |
| Net income (loss) | \$ 5,578 | \$ * | \$ 7,037 | \$ (7,037) | \$ 5,578 |

* Amounts significantly less than \$1 million.

(a) Includes other income (deductions) net and other realized capital gains (losses) of \$(147) million for the six months ended June 30, 2005.

(b) Includes other income (deductions) net and other realized capital gains (losses) of \$92 million for the six months ended June 30, 2005.

(c) Includes other income (deductions) net and other realized capital gains (losses) of \$(55) million for the six months ended June 30, 2005.

(d) Includes other income (deductions) net and other realized capital gains (losses) of \$(173) million for the six months ended June 30, 2004.

(e) Includes other income (deductions) net and other realized capital gains (losses) of \$(182) million for the six months ended June 30, 2004.

(f) Includes other income (deductions) net and other realized capital gains (losses) of \$(355) million for the six months ended June 30, 2004.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

American International Group, Inc. and Subsidiaries

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

| Three Months Ended June 30, 2005 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|---------------------------|-------------------------|--------------|-------------------------|
| Operating income | \$ 150 ^(a) | \$ * | \$ 6,551 ^(b) | \$ | \$ 6,701 ^(c) |
| Equity in undistributed net income of consolidated subsidiaries | 3,784 | | 590 | (4,374) | |
| Dividend income from consolidated subsidiaries | 657 | | | (657) | |
| Income taxes | 102 | * | 1,981 | | 2,083 |
| Minority interest | | | (129) | | (129) |
| Net income (loss) | \$ 4,489 | \$ * | \$ 5,031 | \$ (5,031) | \$ 4,489 |

*Amounts significantly less than \$1 million.

| Three Months Ended June 30, 2004 (Restated) (in millions) (unaudited) | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Eliminations | Consolidated AIG |
|--|---|---------------------------|-------------------------|--------------|-------------------------|
| Operating income (loss) | \$ (126) ^(d) | \$ * | \$ 4,775 ^(e) | \$ | \$ 4,649 ^(f) |
| Equity in undistributed net income of consolidated subsidiaries | 2,977 | | 542 | (3,519) | |
| Dividend income from consolidated subsidiaries | 319 | | 16 | (335) | |
| Income taxes | 90 | * | 1,374 | | 1,464 |
| Minority interest | | | (105) | | (105) |
| Net income (loss) | \$ 3,080 | \$ * | \$ 3,854 | \$ (3,854) | \$ 3,080 |

*Amounts significantly less than \$1 million.

^(a) Includes other income (deductions) net and other realized capital gains (losses) of \$(44) million for the three months ended June 30, 2005.^(b) Includes other income (deductions) net and other realized capital gains (losses) of \$(202) million for the three months ended June 30, 2005.^(c) Includes other income (deductions) net and other realized capital gains (losses) of \$(246) million for the three months ended June 30, 2005.^(d) Includes other income (deductions) net and other realized capital gains (losses) of \$(216) million for the three months ended June 30, 2004.^(e) Includes other income (deductions) net and other realized capital gains (losses) of \$230 million for the three months ended June 30, 2004.^(f) Includes other income (deductions) net and other realized capital gains (losses) of \$14 million for the three months ended June 30, 2004.

Table of Contents**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**

| Six Months Ended June 30, 2005 (Restated) <i>(in millions) (unaudited)</i> | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Consolidated AIG |
|---|---|---------------------------|-----------------------|---------------------|
| Net cash provided by operating activities | \$ 721 | \$ * | \$ 13,096 | \$ 13,817 |
| Cash flows from investing: | | | | |
| Invested assets disposed | 158 | | 110,586 | 110,744 |
| Invested assets acquired | | | (145,702) | (145,702) |
| Other | (173) | * | (227) | (400) |
| Net cash used in investing activities | (15) | * | (35,343) | (35,358) |
| Cash flows from financing activities: | | | | |
| Change in debts | (35) | | 6,828 | 6,793 |
| Other | (657) | * | 15,961 | 15,304 |
| Net cash (used in) provided by financing activities | (692) | * | 22,789 | 22,097 |
| Effect of exchange rate changes on cash | 40 | | (867) | (827) |
| Change in cash | 54 | * | (325) | (271) |
| Cash at beginning of period | 17 | | 1,992 | 2,009 |
| Cash at end of period | \$ 71 | \$ * | \$ 1,667 | \$ 1,738 |

*Amounts significantly less than \$1 million.

| Six Months Ended June 30, 2004 (Restated) <i>(in millions) (unaudited)</i> | American International Group, Inc. Guarantor | AIG Liquidity Corp. | Other Subsidiaries | Consolidated AIG |
|---|---|---------------------------|-----------------------|---------------------|
| Net cash provided by operating activities | \$ 891 | \$ * | \$ 10,995 | \$ 11,886 |
| Cash flows from investing: | | | | |
| Invested assets disposed | 184 | | 96,069 | 96,253 |
| Invested assets acquired | (176) | | (146,447) | (146,623) |
| Other | (192) | * | (145) | (337) |
| Net cash used in investing activities | (184) | * | (50,523) | (50,707) |
| Cash flows from financing activities: | | | | |
| Change in debts | (26) | | 7,450 | 7,424 |
| Other | (572) | * | 32,955 | 32,383 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | | | |
|---|-------|------|----------|----------|
| Net cash (used in) provided by financing activities | (598) | * | 40,405 | 39,807 |
| Effect of exchange rate changes on cash | (110) | | 235 | 125 |
| Change in cash | (1) | * | 1,112 | 1,111 |
| Cash at beginning of period | 19 | | 903 | 922 |
| Cash at end of period | \$ 18 | \$ * | \$ 2,015 | \$ 2,033 |

*Amounts significantly less than \$1 million.

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

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

INDEX

| | Page |
|---|-------------|
| <u>CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS</u> | 42 |
| <u>RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS</u> | 43 |
| <u>OVERVIEW OF OPERATIONS AND BUSINESS RESULTS</u> | 43 |
| <i>Consolidated Results</i> | 44 |
| <u>CRITICAL ACCOUNTING ESTIMATES</u> | 47 |
| <u>OPERATING REVIEW</u> | 48 |
| <i>General Insurance Operations</i> | 48 |
| <i>General Insurance Results</i> | 50 |
| <i>Reinsurance</i> | 51 |
| <i>Reserve for Losses and Loss Expenses</i> | 52 |
| <i>Asbestos and Environmental Reserves</i> | 58 |
| <i>Life Insurance & Retirement Services Operations</i> | 62 |
| <i>Life Insurance & Retirement Services Results</i> | 63 |
| <i>Underwriting and Investment Risk</i> | 64 |
| <i>Insurance and Asset Management Invested Assets</i> | 67 |
| <i>Credit Quality</i> | 69 |
| <i>Valuation of Invested Assets</i> | 69 |
| <i>Financial Services Operations</i> | 71 |
| <i>Financial Services Results</i> | 73 |
| <i>Financial Services Invested Assets</i> | 74 |
| <i>Asset Management Operations</i> | 75 |
| <i>Asset Management Results</i> | 76 |
| <i>Other Operations</i> | 76 |
| <u>CAPITAL RESOURCES</u> | 76 |
| <i>Borrowings</i> | 77 |
| <i>Contractual Obligations and Other Commercial Commitments</i> | 79 |
| <i>Shareholders' Equity</i> | 80 |
| <i>Stock Purchase</i> | 81 |
| <i>Dividends from Insurance Subsidiaries</i> | 81 |
| <i>Regulation and Supervision</i> | 81 |
| <u>LIQUIDITY</u> | 81 |
| <u>SPECIAL PURPOSE VEHICLES AND OFF BALANCE SHEET ARRANGEMENTS</u> | 83 |
| <u>DERIVATIVES</u> | 83 |
| <u>MANAGING MARKET RISK</u> | 83 |
| <i>Insurance</i> | 84 |
| <i>Financial Services</i> | 84 |
| <u>RECENT ACCOUNTING STANDARDS</u> | 86 |
| <u>CONTROLS AND PROCEDURES</u> | 87 |
| <u>EX-12: STATEMENT RE COMPUTATION OF RATIOS</u> | |
| <u>EX-31: CERTIFICATIONS</u> | |
| <u>EX-32: CERTIFICATIONS</u> | |

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, possibly 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-10K, 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.

Table of Contents

American International Group, Inc. and Subsidiaries

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 Second 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 Second 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.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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.

Table of Contents

American International Group, Inc. and Subsidiaries

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 six months ended June 30, 2005 and 2004:

| <i>(in millions)</i> | 2005 (Restated) | 2004 (Restated) |
|---|----------------------------|--------------------|
| Total revenues | \$ 55,105 | \$ 47,311 |
| Income before income taxes, minority interest and cumulative effect of an accounting change | 12,350 | 8,491 |
| Net income | \$ 8,288 | \$ 5,578 |

Consolidated Results

The 16.5 percent growth in revenues in the first six 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 45.4 percent in the first six 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 six months ended June 30, 2005 and 2004. See also Note 3 of Notes to Consolidated Financial Statements.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| <i>(in millions)</i> | 2005 (Restated) | 2004 (Restated) |
|---|--------------------|--------------------|
| Revenues^(a): | | |
| General Insurance ^(b) | \$ 22,624 | \$ 20,331 |
| Life Insurance & Retirement Services ^(c) | 23,292 | 21,280 |
| Financial Services ^(d) | 6,214 | 3,473 |
| Asset Management ^(e) | 2,596 | 2,254 |
| Other | 379 | (27) |
| <hr/> | | |
| Consolidated | \$ 55,105 | \$ 47,311 |
| <hr/> | | |
| Operating Income^{(a)(f)}: | | |
| General Insurance | \$ 3,527 | \$ 2,914 |
| Life Insurance & Retirement Services | 4,505 | 4,068 |
| Financial Services | 3,259 | 899 |
| Asset Management | 1,114 | 965 |
| Other ^(g) | (55) | (355) |
| <hr/> | | |
| Consolidated | \$ 12,350 | \$ 8,491 |

(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 six 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. DBG's operating income included addi-

Table of Contents

American International Group, Inc. and Subsidiaries
tional losses in the first six 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 59 percent of AIG's Life Insurance & Retirement Services operating income for the first six months of 2005.

Life Insurance & Retirement Services operating income increased by 10.7 percent in the first six months of 2005 when compared to the same period of 2004. This increase resulted from growth in AIG's principal Foreign Life Insurance & Retirement Services businesses.

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 significantly in the first six 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. The increase was partially offset by the adjustment for ILFC's restatement relating to vendor payments. 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 15.4 percent in the first six 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 June 30, 2005, AIG had total consolidated shareholders' equity of \$88.61 billion and total consolidated borrowings of \$103.50 billion. At that date, \$93.32 billion of such borrowings were either not guaranteed by AIG or were 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 June 30, 2005, AIG purchased in the open market 2,477,100 shares of its common stock.

Liquidity

At June 30, 2005, AIG's consolidated invested assets included \$19.20 billion in cash and short-term investments. Consolidated net cash provided from operating activities in the first six months of 2005 amounted to \$13.82 billion. AIG believes that its liquid assets, cash provided by operations 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

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

(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 finan-

Table of Contents

American International Group, Inc. and Subsidiaries
 cial 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 June 2006, A.M. Best upgraded the financial strength ratings from A+ to A++ (highest of fourteen rating levels) and the issuer credit ratings from aa- to aa+ (remaining within the second highest of nine rating levels) for the domestic life & retirement services subsidiaries of AIG. A.M. Best also affirmed the financial strength ratings of A+ (second highest of fourteen rating levels) and the issuer credit ratings of aa- (within the second highest of nine rating levels) of most of AIG's domestic property and casualty subsidiaries. In addition, A.M. Best removed from review all of the ratings of AIG's insurance subsidiaries and assigned an issuer credit rating of aa- (within the second highest of nine rating levels) to AIG.

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 certain 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

Table of Contents

American International Group, Inc. and Subsidiaries

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.

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 continues to be 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. 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.

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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.

Table of Contents

American International Group, Inc. and Subsidiaries

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).

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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, D&O, difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and

Table of Contents

American International Group, Inc. and Subsidiaries 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 underwriting is not profitable, premiums are inadequate to pay for insured losses and underwriting related expenses. In these situations, the addition of general insurance related investment income and realized capital gains may, however, enable a general insurance business to produce operating income. 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,

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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.

Table of Contents

American International Group, Inc. and Subsidiaries

General Insurance operating income is comprised of statutory underwriting results, change 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 six months ended June 30, 2005 and 2004 were as follows:

| <i>(in millions, except ratios)</i> | 2005 (Restated) | 2004 (Restated) |
|---|--------------------|--------------------|
| Net premiums written: | | |
| Domestic General | | |
| DBG | \$ 11,566 | \$ 11,003 |
| Transatlantic | 1,769 | 1,835 |
| Personal Lines | 2,359 | 2,210 |
| Mortgage Guaranty | 310 | 290 |
| Foreign General | 5,430 | 4,911 |
| Total | \$ 21,434 | \$ 20,249 |
| Net premiums earned: | | |
| Domestic General | | |
| DBG | \$ 11,160 | \$ 9,986 |
| Transatlantic | 1,750 | 1,789 |
| Personal Lines | 2,277 | 2,106 |
| Mortgage Guaranty | 283 | 263 |
| Foreign General | 4,902 | 4,298 |
| Total | \$ 20,372 | \$ 18,442 |
| Net investment income: | | |
| Domestic General | | |
| DBG | \$ 1,214 | \$ 1,027 |
| Transatlantic | 169 | 145 |
| Personal Lines | 106 | 88 |
| Mortgage Guaranty | 59 | 59 |
| Foreign General | 527 | 376 |
| Total | \$ 2,075 | \$ 1,695 |
| Realized capital gains (losses) | 177 | 194 |
| Operating income: | | |
| Domestic General: | | |
| DBG | \$ 1,518(a)(b) | \$ 1,126 |
| Transatlantic | 213 | 231 |
| Personal Lines | 211 | 195 |
| Mortgage Guaranty | 213 | 212 |
| Foreign General | 1,367 | 1,134 |
| Reclassifications, eliminations and other | 5 | 16 |
| Total | \$ 3,527 | \$ 2,914 |
| Domestic General: | | |
| Loss ratio | 76.15(a) | 78.79 |
| Expense ratio | 19.85(b) | 18.92 |
| Combined Ratio | 96.00 | 97.71 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | | |
|-------------------------------|----------|-------|
| Foreign General: | | |
| Loss ratio | 53.35 | 56.09 |
| Expense ratio ^(c) | 28.44 | 26.67 |
| <hr/> | | |
| Combined ratio ^(c) | 81.79 | 82.76 |
| <hr/> | | |
| Consolidated: | | |
| Loss ratio | 70.66(a) | 73.50 |
| Expense ratio | 22.03(b) | 20.80 |
| <hr/> | | |
| Combined ratio | 92.69 | 94.30 |
| <hr/> | | |

(a) Includes \$118 million of additional losses incurred resulting from increased labor and material costs related to the 2004 Florida Hurricanes (0.76 points increase on the domestic general loss ratio and 0.58 points increase on the consolidated general loss ratio).

(b) Includes \$100 million accrual in the second quarter of 2005 to cover DBG's current estimate of liability in connection with certain policies of workers compensation insurance written between 1985 and 1996.

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

General Insurance Results

General Insurance operating income in the first six months of 2005 showed excellent results. The increase in General Insurance operating income in the first six 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. 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 six months of 2005 from a strong profit center focus and growing distribution channels. Overall, DBG's net premiums written increased in the first six 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 the same period of 2004 principally as a result of the effect of prior year rate increases on premiums earned in the quarter and lower losses in the quarter in short tail classes of business, such as aviation, 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 incurred in the first quarter of 2005.

Transatlantic's net premiums written and net premiums earned for the first six months 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 six 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 en-

Table of Contents

American International Group, Inc. and Subsidiaries
 hanced product offerings. These gains were partially offset by reductions in its involuntary auto business and aggressive re-underwriting of the previously acquired GE business. Underwriting income increased as a result of earned premium growth with no significant change in the combined ratio.

Mortgage Guaranty's net premiums written increased in the first six months of 2005 when compared to the same period of 2004. Strong growth in second liens and international business was mostly offset by flat performance in domestic first lien and private student loan operations. Domestic first lien production was affected by a lower residential refinance market due to marginally higher long-term mortgage rates compared to last year, while timing in premiums received adversely affected private student loan production.

Foreign General Insurance had strong results in the first six 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. Rate decreases in the United Kingdom commercial lines caused a significant reduction in second quarter 2005 growth in net premiums written.

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 six months of 2005:

| | 2005 |
|------------------------------------|------|
| Growth in original currency | 4.8% |
| Foreign exchange effect | 1.1 |
| Growth as reported in U.S. dollars | 5.9% |

As previously noted, DBG's results include \$118 million of additional losses incurred in the first six months of 2005 resulting from increased labor and material costs related to the 2004 Florida hurricanes. Other effects of catastrophes incurred in the first six 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 six 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. Partnership income was particularly strong for Foreign General in the second quarter of 2005 due to increases in market valuations of infrastructure fund investments in Africa, Asia, China, Eastern Europe and India. Additionally, net investment income was positively affected by the compounding of previously earned and reinvested net investment income.

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 28.6 percent in the first six months of 2005 compared to 34.3 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

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

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 \$18.14 billion at June 30, 2005 and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at June 30, 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 man-

Table of Contents

American International Group, Inc. and Subsidiaries ages 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 June 30, 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 June 30, 2005 AIG had a reserve for unrecoverable reinsurance approximating \$840 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 June 30, 2005, approximately \$3.3 billion of letters of credit were outstanding to cover intercompany reinsurance transactions with AIRCO or other General Insurance subsidiaries.

At June 30, 2005, the consolidated general reinsurance assets of \$18.14 billion include reinsurance recoverables for paid losses and loss expenses of \$750 million, \$14.27 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves) and \$3.12 billion of ceded reserve for unearned premiums. 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 June 30, 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 June 30, 2005 the components of the General Insurance reserve for losses and loss expenses (loss reserves) with respect to major lines of business*:

(in millions)

| | |
|-----------------------------|----------|
| Other liability occurrence | \$17,091 |
| Other liability claims made | 10,747 |
| Workers compensation | 9,922 |
| Auto liability | 5,564 |
| Property | 4,306 |
| International | 3,562 |
| Reinsurance | 2,474 |
| Medical malpractice | 2,228 |
| Aircraft | 1,734 |

Edgar Filing: AMERICAN INTERNATIONAL GROUP INC - Form 10-Q/A

| | |
|---------------------------|----------|
| Products liability | 1,384 |
| Commercial multiple peril | 1,154 |
| Accident and health | 1,077 |
| Fidelity/ surety | 962 |
| Other | 2,624 |
| <hr/> | |
| Total | \$64,829 |
| <hr/> | |

**Presented by lines of business 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 June 30, 2005, General Insurance net loss reserves increased \$3.31 billion from the prior year end to \$50.56 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

Table of Contents

American International Group, Inc. and Subsidiaries

General Insurance net loss reserves by business unit as of June 30, 2005.

(in millions)

| | |
|--------------------------------|-----------------|
| DBG ^(a) | \$34,974 |
| Personal Lines ^(b) | 2,367 |
| Transatlantic | 5,057 |
| Mortgage Guaranty | 338 |
| Foreign General ^(c) | 7,828 |
| Total Net Loss Reserve | \$50,564 |

(a) DBG loss reserves include approximately \$3.58 billion (\$4.15 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 \$758 million related to business ceded to DBG and reported in DBG's statutory filings.

(c) Foreign General loss reserves include approximately \$2.01 billion related to business reported in DBG's statutory filings.

The DBG net loss reserve of \$34.97 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 June 30, 2005, AIRCO carried a discount of approximately \$570 million applicable to the \$4.15 billion in undiscounted reserves it assumed from the American Home/National Union pool via this quota share cession. AIRCO also carries approximately \$389 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 \$758 million as of June 30, 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 June 30, 2005, these AIU reserves carried by participants in the American Home/National Union pool amounted to approximately \$2.01 billion. The remaining Foreign Ge