

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



FORM 10-Q

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

OR

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

FOR THE TRANSITION PERIOD FROM TO

FOR QUARTER ENDED SEPTEMBER 30, 1999 COMMISSION FILE NUMBER 1-8787

AMERICAN INTERNATIONAL GROUP, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE 13-2592361  
(STATE OR OTHER JURISDICTION OF INCORPORATION (I.R.S. EMPLOYER IDENTIFICATION NUMBER)  
OR ORGANIZATION)  
70 PINE STREET, NEW YORK, NEW YORK 10270  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 770-7000  
NONE  
FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT.

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 the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1999: 1,548,241,747.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET  
(IN MILLIONS)

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(UNAUDITED)	
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 1999 -- \$76,709; 1998 -- \$63,873).....	\$ 76,023	\$ 66,317
Bonds held to maturity, at amortized cost (market value: 1999 -- \$12,557; 1998 -- \$13,633).....	12,236	12,658
Bonds trading securities, at market value (cost: 1999 -- \$1,055; 1998 -- \$990).....	1,034	1,005
Equity securities:		
Common stocks (cost: 1999 -- \$5,448; 1998 -- \$5,465).....	5,654	5,648
Non-redeemable preferred stocks (cost: 1999 -- \$654; 1998 -- \$628).....	632	620
Mortgage loans on real estate, net of allowance (1999 -- \$72; 1998 -- \$67).....	7,256	6,702
Policy Loans.....	2,755	2,626
Collateral and guaranteed loans, net of allowance (1999 -- \$71; 1998 -- \$74).....	2,207	2,413
Financial services and asset management assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1999 -- \$2,138; 1998 -- \$2,048).....	17,312	16,330
Securities available for sale, at market value (cost: 1999 -- \$12,696; 1998 -- \$10,667).....	12,731	10,674
Trading securities, at market value.....	5,392	5,668
Spot commodities, at market value.....	622	476
Unrealized gain on interest rate and currency swaps, options and forward transactions.....	7,162	9,881
Trading assets.....	5,910	6,229
Securities purchased under agreements to resell, at contract value.....	10,265	4,838
Other invested assets.....	9,772	8,692
Short-term investments, at cost (approximates market value).....	6,014	6,739
Cash.....	273	303
	-----	-----
Total investments and cash.....	183,250	167,819
Investment income due and accrued.....	2,123	1,869
Premiums and insurance balances receivable, net of allowance (1999 -- \$122; 1998 -- \$105).....	12,895	11,679
Reinsurance assets.....	18,613	17,744
Deferred policy acquisition costs.....	9,111	8,081
Investments in partially-owned companies.....	348	418
Real estate and other fixed assets, net of accumulated depreciation (1999 -- \$1,958; 1998 -- \$1,774).....	2,813	2,738
Separate and variable accounts.....	25,136	18,662
Other assets.....	5,497	4,666
	-----	-----
Total assets.....	\$259,786	\$233,676
	=====	=====

See Accompanying Notes to Financial Statements.

1

3

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET -- (CONTINUED)  
(IN MILLIONS, EXCEPT SHARE AMOUNTS)

	SEPTEMBER 30, 1999	DECEMBER 31, 1998
	-----	-----
	(UNAUDITED)	
LIABILITIES:		

Reserve for losses and loss expenses.....	\$ 38,429	\$ 38,310
Reserve for unearned premiums.....	11,019	10,009
Future policy benefits for life and accident and health insurance contracts.....	33,144	29,571
Policyholders' contract deposits.....	41,889	33,924
Other policyholders' funds.....	3,120	2,720
Reserve for commissions, expenses and taxes.....	2,774	2,225
Insurance balances payable.....	1,975	2,283
Funds held by companies under reinsurance treaties.....	866	837
Income taxes payable:		
Current.....	636	224
Deferred.....	576	1,247
Financial services and asset management liabilities:		
Borrowings under obligations of guaranteed investment agreements.....	8,822	9,188
Securities sold under agreements to repurchase, at contract value.....	7,534	4,473
Trading liabilities.....	3,946	4,664
Securities and spot commodities sold but not yet purchased, at market value.....	5,973	4,457
Unrealized loss on interest rate and currency swaps, options and forward transactions.....	7,062	7,055
Trust deposits and deposits due to banks and other depositors.....	2,065	1,682
Commercial paper.....	2,548	3,204
Notes, bonds and loans payable.....	17,362	15,249
Commercial paper.....	1,128	1,432
Notes, bonds, loans and mortgages payable.....	2,690	2,837
Separate and variable accounts.....	25,136	18,662
Minority interests.....	1,373	1,590
Other liabilities.....	6,524	6,815
	-----	-----
Total liabilities.....	226,591	202,658
	-----	-----
Preferred shareholders' equity in subsidiary company.....	895	895
	-----	-----
CAPITAL FUNDS:		
Preferred stock.....	--	248
Common stock, \$2.50 par value; 2,000,000,000 shares authorized; shares issued 1999 -- 1,660,707,090; 1998 -- 1,313,510,800.....	4,152	3,284
Additional paid-in capital.....	2,077	1,319
Retained earnings.....	29,806	27,110
Accumulated other comprehensive income.....	(1,853)	(10)
Treasury stock, at cost; 1999 -- 112,465,343; 1998 -- 96,373,983 shares of common stock.....	(1,882)	(1,828)
	-----	-----
Total capital funds.....	32,300	30,123
	-----	-----
Total liabilities and capital funds.....	\$259,786	\$233,676
	=====	=====

See Accompanying Notes to Financial Statements.

2

4

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME  
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	NINE MONTHS		THREE MONTHS	
	ENDED SEPTEMBER 30,		ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
	-----	-----	-----	-----
General insurance operations:				
Net premiums written.....	\$12,217	\$10,759	\$3,972	\$3,760
Change in unearned premium reserve.....	(839)	(440)	(347)	(61)
	-----	-----	-----	-----
Net premiums earned.....	11,378	10,319	3,625	3,699
Net investment income.....	1,869	1,587	632	584



	-----	-----
Cash Flows From Operating Activities:		
Net Income.....	\$ 3,743	\$ 3,162
	=====	=====
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves.....	4,971	3,055
Premiums and insurance balances receivable and payable -- net.....	(1,524)	(1,219)
Reinsurance assets.....	(869)	(345)
Deferred policy acquisition costs.....	(1,030)	(272)
Investment income due and accrued.....	(254)	(353)
Funds held under reinsurance treaties.....	29	(30)
Other policyholders' funds.....	400	56
Current and deferred income taxes -- net.....	738	413
Reserve for commissions, expenses and taxes.....	549	281
Other assets and liabilities -- net.....	(965)	(741)
Trading assets and liabilities -- net.....	(399)	696
Trading securities, at market value.....	275	(2,404)
Spot commodities, at market value.....	(146)	--
Net unrealized gain on interest rate and currency swaps, options and forward transactions.....	2,726	(1,202)
Securities purchased under agreements to resell.....	(5,427)	(419)
Securities sold under agreements to repurchase.....	3,061	1,053
Securities and spot commodities sold but not yet purchased, at market value.....	1,516	(334)
Realized capital gains.....	(131)	(141)
Equity in income of partially-owned companies and other invested assets.....	(225)	(152)
Depreciation expenses, principally flight equipment.....	928	678
Change in cumulative translation adjustments.....	(352)	(160)
Other -- net.....	338	147
	-----	-----
Total Adjustments.....	4,209	(1,393)
	-----	-----
Net cash provided by operating activities.....	\$ 7,952	\$ 1,769
	=====	=====

See Accompanying Notes to Financial Statements.

4

6

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS -- (CONTINUED)  
(IN MILLIONS)  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	-----	-----
	1999	1998
	-----	-----
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed.....	\$ 775	\$ 1,083
Cost of bonds, at market sold.....	22,426	20,826
Cost of bonds, at market matured or redeemed.....	6,468	6,260

Cost of equity securities sold.....	3,263	2,118
Realized capital gains.....	131	141
Purchases of fixed maturities.....	(42,093)	(30,935)
Purchases of equity securities.....	(2,636)	(1,939)
Acquisition of 20th Century, net of cash acquired.....	--	(482)
Mortgage, policy and collateral loans granted.....	(2,936)	(2,717)
Repayments of mortgage, policy and collateral loans.....	2,461	1,670
Sales of securities available for sale.....	1,598	2,274
Maturities of securities available for sale.....	710	1,897
Purchases of securities available for sale.....	(4,366)	(4,344)
Sales of flight equipment.....	1,206	523
Purchases of flight equipment.....	(2,825)	(2,549)
Net additions to real estate and other fixed assets.....	(365)	(290)
Sales or distributions of other invested assets.....	2,381	1,980
Investments in other invested assets.....	(3,470)	(3,715)
Change in short-term investments.....	85	128
Investments in partially-owned companies.....	49	(35)
	-----	-----
Net cash used in investing activities.....	(17,138)	(8,106)
	-----	-----
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits.....	7,965	3,222
Change in trust deposits due to banks and other depositors.....	383	(527)
Change in commercial paper.....	(960)	915
Proceeds from notes, bonds, loans and mortgages payable...	6,778	6,074
Repayments on notes, bonds, loans and mortgages payable...	(4,820)	(3,341)
Proceeds from guaranteed investment agreements.....	3,298	3,860
Maturities of guaranteed investment agreements.....	(3,664)	(3,448)
Proceeds from common stock issued.....	182	28
Cash dividends to shareholders.....	(225)	(234)
Acquisition of treasury stock.....	(225)	(38)
Proceeds from redemption of Premium Equity Redemption Cumulative Security Units.....	431	--
Other -- net.....	13	(51)
	-----	-----
Net cash provided by financing activities.....	9,156	6,460
	-----	-----
Change in cash.....	(30)	123
Cash at beginning of period.....	303	87
	-----	-----
Cash at end of period.....	\$ 273	\$ 210
	=====	=====

See Accompanying Notes to Financial Statements.

5

7

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(IN MILLIONS)  
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Net income.....	\$ 3,743	\$3,162	\$1,267	\$ 1,076
Other comprehensive income:				
Unrealized depreciation of investments -- net of reclassification adjustments.....	(2,329)	(903)	(985)	(1,125)
Deferred income tax benefit on changes.....	843	339	344	392
Foreign currency translation adjustments.....	(352)	(160)	(73)	(28)
Applicable income tax (expense) benefit on				

changes.....	(5)	13	(10)	(6)
Other comprehensive income.....	(1,843)	(711)	(724)	(767)
Comprehensive income.....	\$ 1,900	\$2,451	\$ 543	\$ 309

See Accompanying Notes to Financial Statements.

6

8

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 1999  
(UNAUDITED)

- a) On January 1, 1999 (the merger date), American International Group, Inc. (AIG) issued 187.5 million shares of its common stock in exchange for all the outstanding common stock and Class B stock of SunAmerica Inc. (SunAmerica) based on an exchange ratio of 0.855 shares of AIG common stock for each share of SunAmerica stock. Because of the merger, which was accounted for as a pooling of interests, all prior historical financial information presented herein has been restated to include SunAmerica.

The following is a reconciliation of the individual company results to the combined results for the first nine months and third quarter of 1998: (in millions)

	NINE MONTHS ENDED SEPTEMBER 30,			THREE MONTHS ENDED SEPTEMBER 30,		
	AIG	SUNAMERICA	TOTAL	AIG	SUNAMERICA	TOTAL
Revenues.....	\$24,231	\$1,825	\$26,056	\$8,400	\$639	\$9,039
Net income.....	\$ 2,760	\$ 402	\$ 3,162	\$ 932	\$144	\$1,076

- b) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair presentation of the results shown. For further information, refer to the Annual Report on Form 10-K of AIG for the year ended December 31, 1998, and the Current Report on Form 8-K of AIG dated June 3, 1999, as amended.
- c) Earnings per share of AIG are based on the weighted average number of common shares outstanding during the period, retroactively adjusted to reflect all stock splits.

Cash dividends per common share reflect the adjustment for a common stock split in the form of a 25 percent common stock dividend paid July 30, 1999. The quarterly dividend rate per common share, commencing with the dividend paid September 17, 1999 is \$0.05.

- d) Supplemental cash flow information for the nine month periods ended September 30, 1999 and 1998 is as follows:

	1999	1998
	-----	-----
	(IN MILLIONS)	
Income taxes paid.....	\$ 909	\$ 872

Interest paid..... \$1,531 \$1,376

e) Segment Information:

The following table summarizes the operations by major operating segment for the first nine months and third quarter of 1999 and 1998 (in millions):

	OPERATING SEGMENTS			
	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Revenues(1):				
General Insurance.....	\$13,458	\$12,075	\$4,329	\$4,356
Life Insurance.....	13,111	11,198	4,266	3,688
Financial Services.....	2,402	2,218	799	821
Asset Management.....	705	519	249	182
Other(2).....	(18)	46	(5)	(8)
Total.....	\$29,658	\$26,056	\$9,638	\$9,039
Operating income:				
General Insurance.....	\$ 2,627	\$ 2,161	\$ 833	\$ 781
Life Insurance.....	2,136	1,778	750	617
Financial Services.....	756	602	250	227
Asset Management.....	218	140	87	45
Other(2).....	(153)	(60)	(53)	(46)
Total.....	\$ 5,584	\$ 4,621	\$1,867	\$1,624

(1) Represents the sum of general net premiums earned, life premium income, net investment income, financial services commissions, transactions and other fees, asset management commissions and other fees, equity in income of minority-owned insurance operations, and realized capital gains (losses).

(2) Includes AIG Parent and other operations which are not required to be reported separately, other income (deductions) -- net, and adjustments and eliminations.

The following table summarizes AIG's general insurance operations by major reporting group for the first nine months and third quarter of 1999 and 1998 (in millions):

	GENERAL INSURANCE			
	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Revenues:				
Domestic Brokerage Group.....	\$ 7,088	\$ 7,107	\$2,266	\$2,403
Foreign General.....	4,360	3,684	1,361	1,382
Other.....	2,010	1,284	702	571
Total.....	\$13,458	\$12,075	\$4,329	\$4,356
Operating income before realized capital gains(1):				
Domestic Brokerage Group.....	\$ 1,276	\$ 975	\$ 435	\$ 331

Foreign General.....	699	711	185	243
Other.....	441	306	141	134
	-----	-----	-----	-----
Total.....	\$ 2,416	\$ 1,992	\$ 761	\$ 708
	=====	=====	=====	=====

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(1) Realized capital gains are not deemed to be an integral part of  
AIG's general insurance operations' internal reporting groups.

8

10

The following table summarizes AIG's life insurance operations by major reporting group for the first nine months and third quarter of 1999 and 1998 (in millions):

	LIFE INSURANCE			
	NINE MONTHS ENDED		THREE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Revenues:				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd. ....	\$ 5,994	\$ 5,150	\$1,983	\$1,645
American Life Insurance Company.....	3,601	3,012	1,075	1,026
Domestic life.....	3,221	2,750	1,113	933
Other.....	295	286	95	84
	-----	-----	-----	-----
Total.....	\$13,111	\$11,198	\$4,266	\$3,688
	=====	=====	=====	=====
Operating income before realized capital gains(1):				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd. ....	\$ 866	\$ 754	\$ 305	\$ 273
American Life Insurance Company.....	508	423	169	139
Domestic life.....	777	577	273	203
Other.....	47	41	16	11
	-----	-----	-----	-----
Total.....	\$ 2,198	\$ 1,795	\$ 763	\$ 626
	=====	=====	=====	=====

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(1) Realized capital gains are not deemed to be an integral part of  
AIG's life insurance operations' internal reporting groups.

The following table summarizes AIG's financial services operations by major reporting group for the first nine months and third quarter of 1999 and 1998 (in millions):

	FINANCIAL SERVICES			
	NINE MONTHS ENDED		THREE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	1999	1998	1999	1998
	-----	-----	-----	-----
Revenues:				
International Lease Finance Corporation .....	\$1,635	\$1,474	\$558	\$511
AIG Financial Products Corp. ....	495	354	189	147
AIG Trading Group Inc. ....	153	316	25	121
Other.....	119	74	27	42
	-----	-----	-----	-----
Total.....	\$2,402	\$2,218	\$799	\$821
	=====	=====	=====	=====

Operating income:

International Lease Finance Corporation .....	\$ 430	\$ 353	\$146	\$123
AIG Financial Products Corp. ....	316	202	120	83
AIG Trading Group Inc. ....	77	105	10	41
Other.....	(67)	(58)	(26)	(20)
	-----	-----	----	----
Total.....	\$ 756	\$ 602	\$250	\$227
	=====	=====	=====	=====

f) Statement of Accounting Standards No. 130 "Comprehensive Income" (FASB 130) establishes standards for reporting comprehensive income and its components as part of capital funds. The reclassification adjustments with respect to available for sale securities were \$131 million and \$141 million for the first nine months and \$54 million and \$56 million for the third quarter of 1999 and 1998, respectively.

g) Derivatives Accounting Policy: AIG Financial Products Corp. and its subsidiaries (AIGFP) and AIG Trading Group Inc. and its subsidiaries (AIGTG) enter into future, forward, swap and option derivative transactions. These transactions are marked to market. With the exception of the derivatives used in market hedging activities with respect to securities available for sale, at market, the marks to market on all such other derivative transactions are recognized in income currently. The mark to market with respect to derivatives which hedge the market movements of securities available for sale, at market is recognized as a component of unrealized appreciation of investments, net of taxes. When the underlying security is sold, the loss or gain resulting from the hedging derivative transaction is recognized as income in that same period.

h) In June 1998, FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). This statement requires AIG to recognize all derivatives in the consolidated balance sheet measuring these derivatives at fair value. The recognition of the changes in the fair value of a derivative depends on a number of factors, including the intended use of the derivative. AIGTG and AIGFP present, in all material respects, the changes in fair value of their derivative transactions as a component of AIG's operating income. AIG is evaluating the impact of FASB 133 with respect to derivative transactions entered into by other AIG operations. AIG believes that the impact of FASB 133 on its results of operations, financial condition or liquidity will not be significant. FASB 133 is effective for the year commencing January 1, 2001.

AMERICAN INTERNATIONAL GROUP, INC.

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

OPERATIONAL REVIEW

General Insurance Operations

AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance. One or more of these subsidiaries is licensed to write substantially all of these lines in all states of the United States and in approximately 100 foreign countries.

Domestic general insurance operations are comprised of the Domestic Brokerage Group, including the domestic operations of Transatlantic Holdings, Inc. (Transatlantic), Personal Lines, including 20th Century Industries (20th Century) and Mortgage Guaranty.

Commencing with the third quarter of 1998, Transatlantic and 20th Century were consolidated into AIG's financial statements, as a result of AIG obtaining majority ownership.

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

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 entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. The Foreign General insurance group uses various marketing methods to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in over 70 countries in Asia, the Pacific Rim, Europe, Africa, Middle East and Latin America. Transatlantic's foreign operations are included in this group. (See also Note (e) of Notes to Financial Statements.)

General insurance operations for the nine month periods ending September 30, 1999 and 1998 were as follows:

(in millions)

	1999	1998
-----		
Net premiums written:		
Domestic	\$ 8,040	\$ 7,224
Foreign	4,177	3,535
-----		
Total	\$12,217	\$10,759
-----		
Net premiums earned:		
Domestic	\$ 7,385	\$ 6,984
Foreign	3,993	3,335
-----		
Total	\$11,378	\$10,319
-----		
Adjusted underwriting profit:		
Domestic	\$ 250	\$ 16
Foreign	297	389
-----		
Total	\$ 547	\$ 405
-----		
Net investment income:		
Domestic	\$ 1,467	\$ 1,265
Foreign	402	322
-----		
Total	\$ 1,869	\$ 1,587
-----		
Operating income before realized capital gains:		
Domestic	\$ 1,717	\$ 1,281
Foreign	699	711
-----		
Total	2,416	1,992
Realized capital gains	211	169
-----		
Operating income	\$ 2,627	\$ 2,161
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During the first nine months of 1999, AIG's net premiums written and net premiums earned increased 13.6 percent and 10.3 percent, respectively, from those of 1998.

General insurance domestic net premiums written and net premiums earned for the nine month periods ending September 30, 1999 and 1998 were as follows:

(in millions)

	1999	1998
-----		
Net premiums written:		
DBG	\$6,138	\$6,037
Personal Lines	1,611	918
Mortgage Guaranty	291	269
-----		
Total	\$8,040	\$7,224
-----		
Net premiums earned:		
DBG	\$5,569	\$5,835
Personal Lines	1,525	868
Mortgage Guaranty	291	281
-----		
Total	\$7,385	\$6,984
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The commercial insurance market remains highly competitive and excessively capitalized, both domestically and overseas. DBG has been able to sustain some growth in various specialty markets, such as pollution, warranty and risk finance, where AIG provides cost effective coverages for large complex risks, underwriting flexibility, and creative risk financing solutions; however, during the first nine months of 1999, DBG declined to renew \$370 million of domestic business where underwriting and pricing standards could not be achieved. Non-renewed policies were principally in the workers' compensation, traditional casualty and property lines of business.

As reflected in the preceding table showing the distribution of net premiums written and net premiums earned, domestic growth was primarily achieved through the growth in the personal auto insurance segment of Personal Lines. Personal Lines net premiums written increased \$693 million in the first nine months of 1999 over the same period of 1998. The consolidation of 20th Century Industries for nine months in 1999 compared to three months in 1998 accounted for the most significant part of the increase, \$381 million. The balance of the increase was related principally to higher voluntary auto premiums produced by the mass marketing and specialty auto divisions of Personal Lines.

Growth of 18.2 percent and 19.7 percent for foreign general insurance net premiums written and net premiums earned, respectively, in the first nine months of 1999 over 1998 reflects growth of operations in the United Kingdom, the Far East, and the consolidation of Transatlantic's foreign operations for nine months in 1999 compared to three months in 1998. Foreign general insurance operations produced 34.2 percent of the general insurance net premiums written in the first nine months of 1999 and 32.9 percent in 1998.

Foreign exchange rates had a minor impact on the foreign general insurance group's net premiums written when translated into U.S. dollars utilizing those exchange rates which prevailed in 1998. (See also the discussion under "Capital Resources" herein.)

Because of the nature and diversity of AIG's operations and the continuing rapid changes in the insurance industry worldwide, together with the factors discussed above, it is difficult to assess further or project future growth in AIG's premiums and reserves.

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 as net premiums earned until the end of the policy period.

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

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	1999	1998
-----		
Domestic:		
Loss Ratio	81.24	84.63
Expense Ratio	15.93	15.35
-----		
Combined Ratio	97.17	99.98
-----		
Foreign:		
Loss Ratio	63.68	57.90
Expense Ratio	28.93	30.32
-----		
Combined Ratio	92.61	88.22
-----		
Consolidated:		
Loss Ratio	75.08	75.99
Expense Ratio	20.37	20.27
-----		
Combined Ratio	95.45	96.26
-----		

AIG believes that underwriting profit is the true measure of the performance of the core business of a general insurance company.

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

Statutory underwriting profit is arrived at by reducing net premiums earned by net losses incurred and net expenses incurred. Statutory accounting differs from GAAP, as statutory accounting requires immediate expense recognition and ignores the matching of revenues and expenses

as required by GAAP. That is, for statutory purposes, all expenses, most specifically acquisition expenses, are recognized immediately which is not

consistent with the revenues earned.

A basic premise of GAAP accounting is the recognition of expenses at the same time revenues are earned, the principle of matching. Therefore, to convert underwriting results to a GAAP basis, acquisition expenses are deferred and recognized together with the related revenues. Accordingly, the statutory underwriting profit has been adjusted as a result of acquisition expenses being deferred as required by GAAP. Thus, "adjusted underwriting profit" is a GAAP measurement which can be viewed as gross margin or an intermediate subtotal in calculating operating income and net income.

A major part of the discipline of a successful general insurance company is to produce an underwriting profit, exclusive of investment income. If underwriting is not profitable, losses incurred are a major factor. The result is that the premiums are inadequate to pay for losses and expenses and produce a profit; therefore, investment income must be used to cover underwriting losses. If assets and the income therefrom are insufficient to pay claims and expenses over extended periods, an insurance company cannot survive. For these reasons, AIG views and manages its underwriting operations separately from its investment operations.

The adjusted underwriting profits were \$547 million in the first nine months of 1999 and \$405 million in the same period of 1998. The regulatory, product type and competitive environment as well as the degree of litigation activity in any one country varies significantly. These factors have a direct impact on pricing and consequently profitability as reflected by adjusted underwriting profit and statutory general insurance ratios. The results reflect the consolidation of Transatlantic and 20th Century for nine months in 1999 compared to three months in 1998.

AIG's results reflect the net impact of incurred losses from catastrophes approximating \$73 million and \$83 million in 1999 and 1998, respectively. AIG's gross incurred losses from catastrophes approximated \$180 million and \$400 million in 1999 and 1998, respectively.

If catastrophes were excluded from the losses incurred in each period, the pro forma consolidated statutory general insurance ratios would be as follows:

	1999	1998
Loss Ratio	74.44	75.18
Expense Ratio	20.37	20.27
Combined Ratio	94.81	95.45

AIG presents calculations of general insurance ratios which exclude catastrophe losses because the impact of catastrophes can fluctuate widely from period to period making comparisons of recurring type business more difficult. Thus, the pro forma results are comparable and allow the reader to focus on the results of AIG's core business, underwriting.

AIG's ability to maintain its combined ratio below 100 is primarily attributable to the profitability of AIG's Foreign General insurance operations and AIG's emphasis on maintaining its disciplined underwriting, especially in the domestic specialty markets. In addition, AIG does not seek net premium growth where rates do not adequately reflect its assessment of exposures.

General insurance net investment income in the first nine months of 1999 increased 17.8 percent when compared to the same period of 1998. The growth in net investment income in 1999 was primarily attributable to new cash flow for investment and the consolidation of Transatlantic and 20th Century Industries

for nine months in 1999 compared to three months in 1998. The new cash flow was generated from net general insurance operating cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

General insurance realized capital gains were \$211 million in the first nine months of 1999 and \$169 million in 1998. These realized gains resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first nine months of 1999 increased 21.5 percent when compared to the same period of 1998. The contribution of general insurance operating income to income before income taxes and minority interest was 47.1 percent in 1999 compared to 46.8 percent in 1998.

AIG is a major purchaser of reinsurance for its general insurance operations. AIG is cognizant of the need to exercise good judgment in the selection

12

14

and approval of both domestic and foreign companies participating in its reinsurance programs. AIG insures risks in over 100 countries and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. These reinsurance arrangements do not relieve AIG from its direct obligations to its insureds.

AIG's general reinsurance assets amounted to \$18.38 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at September 30, 1999 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 1998, approximately 50 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 50 percent of the general reinsurance assets were from authorized reinsurers and over 93 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Through September 30, 1999, these distribution percentages have not significantly changed.

AIG's allowance for estimated unrecoverable reinsurance has not changed significantly from December 31, 1998 when AIG had allowances for unrecoverable reinsurance approximating \$100 million. At that date, and prior to this allowance, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

AIG's Reinsurance Security Department conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers, both foreign and domestic. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed, and has sufficient financial capacity, and the local economic environment in which a foreign reinsurer operates. This department also reviews the nature of the risks ceded and the need for collateral. In addition, AIG's Credit Risk Committee reviews the credit limits for and concentrations with any one reinsurer.

AIG enters into certain intercompany reinsurance transactions for its general and life operations. AIG enters these transactions as a sound and

prudent business practice in order to maintain underwriting control and spread insurance risk among various legal entities. These reinsurance agreements have been approved by the appropriate regulatory authorities. All material intercompany transactions have been eliminated in consolidation.

At September 30, 1999, the consolidated general reinsurance assets of \$18.38 billion include reinsurance recoverables for paid losses and loss expenses of \$2.20 billion and \$13.73 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments therefrom are reflected in income currently. It is AIG's belief that the ceded reserves at September 30, 1999 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.

At September 30, 1999, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$38.43 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and amounts of discounting related to certain workers' compensation claims. At September 30, 1999, general insurance net loss reserves increased \$76 million to \$24.70 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at September 30, 1999. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on such future results of operations.

13

15

In a very broad sense, the general loss reserves can be categorized into two distinct groups: one group being long tail casualty lines of business. Such lines include excess and umbrella liability, directors and officers' liability, professional liability, medical malpractice, general liability, products' liability, and related classes. These lines account for approximately 50 percent of net losses and loss expenses. The other group is short tail lines of business consisting principally of property lines and including certain classes of casualty lines.

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

A variety of actuarial methods and assumptions are normally employed to estimate net losses for long tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long tail casualty lines, net loss trend factors approximated five percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms and current and future estimates of monetary inflation and social inflation. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs. Therefore, AIG's carried net long tail loss reserves are judgmentally set as well as tested for reasonableness using the most appropriate loss trend factors for each class of business. In the

evaluation of AIG's net loss reserves, loss trend factors vary slightly, depending on the particular class and nature of the business involved. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience.

Estimation of net losses for short tail business is less complex than for long tail casualty lines. Loss cost trends for many property lines can generally be assumed to be similar to the growth in exposure of such lines. For example, if the fire insurance coverage remained proportional to the actual value of the property, the growth in property's exposure to fire loss can be approximated by the amount of insurance purchased.

For other property and short tail casualty lines, the loss trend is implicitly assumed to grow at the rate that reported net losses grow from one year to the next. The concerns noted above for longer tail casualty lines with respect to the limited statistical credibility of reported net losses generally do not apply to shorter tail lines.

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 referred to collectively as environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites environmental impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein.

Estimation of asbestos and environmental claims loss reserves is a difficult process. These asbestos and environmental claims cannot be estimated by conventional reserving techniques as previously described. Quantitative techniques frequently have to be supplemented by subjective considerations including managerial judgment. Significant factors which affect the trends which influence the development of asbestos and environmental claims are the inconsistent court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposure for cleanup costs of hazardous waste dump sites involves issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties. The cleanup cost exposure may significantly change if the Congressional reauthorization of Superfund dramatically changes, thereby reducing or increasing litigation and cleanup costs. Additionally, proposed legislation, if passed in current form, would be expected to reduce ultimate asbestos exposure.

In the interim, AIG and other industry members have and will continue to litigate the broaden-

ing judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at September 30, 1999 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss

reserves. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at September 30, 1999 and 1998 was as follows:

(in millions)

	1999		1998	
	GROSS	Net	Gross	Net
<b>Asbestos:</b>				
Reserve for losses and loss expenses at beginning of year	\$ 964	\$259	\$ 842	\$195
Losses and loss expenses incurred	366	57	259	75
Losses and loss expenses paid	(200)	(39)	(194)	(37)
Reserve for losses and loss expenses at end of period	\$1,130	\$277	\$ 907	\$233
<b>Environmental:</b>				
Reserve for losses and loss expenses at beginning of year	\$1,536	\$604	\$1,467	\$593
Losses and loss expenses incurred	77	22	130	60
Losses and loss expenses paid	(104)	(46)	(170)	(70)
Reserve for losses and loss expenses at end of period	\$1,509	\$580	\$1,427	\$583
<b>Combined:</b>				
Reserve for losses and loss expenses at beginning of year	\$2,500	\$863	\$2,309	\$788
Losses and loss expenses incurred	443	79	389	135
Losses and loss expenses paid	(304)	(85)	(364)	(107)
Reserve for losses and loss expenses at end of period	\$2,639	\$857	\$2,334	\$816

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at September 30, 1999 and December 31, 1998 were estimated as follows:

(in millions)

1999

1998

	-----		-----	
	GROSS	Net	Gross	Net
-----				
Combined	\$ 933	\$322	\$ 979	\$359
-----				

A summary of asbestos and environmental claims count activity for the nine month periods ended September 30, 1999 and 1998 was as follows:

	1999			1998		
	ASBESTOS	ENVIRONMENTAL	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	6,388	16,560	22,948	6,150	17,422	23,572
Claims during period:						
Opened	715	1,792	2,507	652	2,405	3,057
Settled	(206)	(717)	(923)	(51)	(460)	(511)
Dismissed or otherwise resolved	(307)	(3,748)	(4,055)	(482)	(2,780)	(3,262)
Claims at end of period	6,590	13,887	20,477	6,269	16,587	22,856

15

17

The average cost per claim settled, dismissed or otherwise resolved for the nine month periods ended September 30, 1999 and 1998 was as follows:

	1999		1998	
	GROSS	Net	Gross	Net
Asbestos	\$390,300	\$77,400	\$363,200	\$69,200
Environmental	23,200	10,200	52,700	21,500
Combined	61,100	17,200	96,500	28,200

A.M. Best, an insurance rating agency, has developed a survival ratio to measure the number of years it would take a company to exhaust both its asbestos and environmental reserves for losses and loss expenses based on that company's current level of asbestos and environmental claims payments. This is a ratio derived by taking the current ending losses and loss expense reserves and dividing by the average annual payments for the prior three years. Therefore, the ratio derived is a simplistic measure of an estimate of the number of years it would be before the current ending losses and loss expense reserves would be paid off using recent average payments. The higher the ratio, the more years the reserves for losses and loss expenses cover these claims payments. These ratios are computed based on the ending reserves for losses and loss expenses over the respective claims settlements during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted, however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments thereof and the resultant ratio.

The developed survival ratios include both involuntary and voluntary indemnity payments. Involuntary payments include court judgments, court orders, covered claims with no coverage defenses, state mandated cleanup costs, claims where AIG's coverage defenses are minimal, and settlements made less than six

months before the first trial setting. Also, AIG considers all legal and loss adjustment payments as involuntary.

AIG believes voluntary indemnity payments should be excluded from the survival ratio. The special asbestos and environmental claims unit actively manages AIG's asbestos and environmental claims and proactively pursues early settlement of environmental claims for all known and unknown sites. As a result, AIG reduces its exposure to future environmental loss contingencies.

AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average payment. These ratios at September 30, 1999 and 1998 were as follows:

	1999		1998	
	GROSS	Net	Gross	Net
Involuntary survival ratios:				
Asbestos	4.0	5.3	3.2	4.2
Environmental	17.0	18.1	16.3	17.5
Combined	9.2	13.6	7.0	9.9

AIG's operations are negatively impacted under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments net of credits for 1998 were \$16 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 1999.

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

Life Insurance Operations

AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. One or more of these subsidiaries is licensed to write life insurance in all states in the United States and in over 70 foreign countries. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guar-

anteed investment contracts, universal life and pensions.

AIG's three principal overseas life operations are American Life Insurance Company (ALICO), American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA) and Nan Shan Life Insurance Company, Ltd. (Nan Shan). ALICO is incorporated in Delaware and

all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. AIG's domestic life operations are comprised of two separate operations, AIG's domestic life companies and the life insurance subsidiaries of SunAmerica Inc. (SunAmerica), a Delaware corporation which owns substantially all of the subsidiaries which were owned by SunAmerica Inc., the Maryland corporation which was merged into AIG. Both of these operations sell primarily financial and investment type products. (See also Note (e) of Notes to Financial Statements.)

Life insurance operations for the nine month periods ending September 30, 1999 and 1998 were as follows:

(in millions)

	1999	1998
Premium income:		
Domestic	\$ 675	\$ 591
Foreign	7,949	6,834
Total	\$ 8,624	\$ 7,425
Net investment income:		
Domestic	\$ 2,600	\$ 2,149
Foreign	1,949	1,641
Total	\$ 4,549	\$ 3,790
Operating income before realized capital losses:		
Domestic	\$ 777	\$ 577
Foreign	1,421	1,218
Total	2,198	1,795
Realized capital losses	(62)	(17)
Operating income	\$ 2,136	\$ 1,778
Life insurance in-force:*		
Domestic	\$103,480	\$ 65,705
Foreign	476,808	437,944
Total	\$580,288	\$503,649

\* Amounts presented were as at September 30, 1999 and December 31, 1998, respectively.

AIG's life premium income during the first nine months of 1999 represented a 16.1 percent increase from the same period in 1998. Foreign life operations produced 92.2 percent and 92.0 percent of the life premium income in 1999 and 1998, respectively.

AIG's life insurance operations, demonstrating the strength of its franchise, continued to show growth in original currencies.

The traditional life products were the major contributors to the growth in foreign premium income and investment income, particularly those countries in which AIA and Nan Shan operate. A mixture of traditional, accident and health

and financial products are being sold in Japan through ALICO.

Life insurance net investment income increased 20.0 percent during the first nine months of 1999. The growth in net investment income was primarily attributable to both foreign and domestic operations new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

Life insurance realized capital losses were \$62 million in 1999 and \$17 million in 1998. These realized capital losses resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income during the first nine months of 1999 increased 20.2 percent to \$2.14 billion. Excluding realized capital losses from life insurance operating income, the percent increase would be 22.5. The contribution of life insurance operating income to income before income taxes and minority interest amounted to 38.3 percent during the first nine months of 1999 compared to 38.5 percent in the same period of 1998.

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

17

19

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage by using yearly renewable term reinsurance.

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

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

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of the related policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the investments may be at a yield below that of the interest required for the accretion of the policy liabilities. Additionally, there exists a future investment risk that is associated with certain policies which have future premium receipts. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities. At December 31, 1998, the average duration of the investment portfolio in Japan was 5.6 years. With respect to the investment of the future premium receipts the average duration is estimated to be 6.1 years. These durations compare with an estimated average duration of 8.7 years for the corresponding policy liabilities. These durations have not changed significantly during 1999. To maintain an adequate yield to match the interest necessary to

support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. Domestically, active monitoring assures appropriate asset-liability matching as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

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

#### Financial Services Operations

AIG's financial services subsidiaries engage in diversified financial products and services including premium financing, banking services and consumer finance services.

International Lease Finance Corporation (ILFC) engages primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. (See also Note (e) of Notes to Financial Statements.)

AIG Financial Products Corp. and its subsidiaries (AIGFP) structure financial transactions, including long-dated interest rate and currency swaps and structure borrowings through notes, bonds and guaranteed investment agreements. (See also Note (e) of Notes to Financial Statements.)

AIG Trading Group Inc. and its subsidiaries (AIGTG) engage in various commodities trading, foreign exchange trading, interest rate swaps and market making activities. (See also Note (e) of Notes to Financial Statements.)

Financial services operations for the nine month periods ending September 30, 1999 and 1998 were as follows:

(in millions)

	1999	1998
Revenues:		
International Lease Finance Corporation	\$1,635	\$1,474
AIG Financial Products Corp.*	495	354
AIG Trading Group Inc.*	153	316
Other	119	74
<b>Total</b>	<b>\$2,402</b>	<b>\$2,218</b>
Operating income:		
International Lease Finance Corporation	\$ 430	\$ 353
AIG Financial Products Corp.	316	202
AIG Trading Group Inc.	77	105

Other, including intercompany adjustments	(67)	(58)
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Total	\$ 756	\$ 602
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\* Represents net trading revenues.

Financial services operating income increased 25.5 percent in the first nine months of 1999 over 1998.

Financial services operating income represented 13.5 percent of AIG's income before income taxes and minority interest in the first nine months of 1999. This compares to 13.0 percent in the same period of 1998.

ILFC generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in the first nine months of 1999 increased 10.9 percent from 1998. The revenue growth resulted primarily from the increase in flight equipment available for operating lease and the increase in the relative cost of the leased fleet. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During the first nine months of 1999, operating income increased 21.6 percent from 1998. The composite borrowing rates at the end of the first nine months of 1999 and 1998 were 6.03 percent and 6.18 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (e) of Notes to Financial Statements.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and through committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. At September 30, 1999, there were 340 aircraft subject to operating leases and there was one aircraft off lease. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIGFP participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in the first nine months of 1999 increased 40.0 percent from the same period of 1998. During the first nine months of 1999, operating income increased 56.6 percent from the same period of 1998. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note (e) of Notes to Financial Statements.)

AIGTG derives a substantial portion of their revenues from market making and trading activities, as principals, in foreign exchange, interest rates and precious and base metals. Revenues in the first nine months of 1999 decreased 51.4 percent from the same period of 1998. During the first nine months of 1999, operating income decreased 26.6 percent from the same period of 1998. The slowing of AIGTG revenues and operating income resulted primarily from sharply higher volatility in the gold market during the third quarter of 1999. As AIGTG is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance or for comparing revenues to operating income. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note (e) of Notes to Financial Statements.)

Asset Management Operations

AIG's asset management operations offer a wide variety of investment vehicles and services, including variable annuities, mutual funds, and investment asset management. Such products and services are offered to individuals and institutions both domestically and internationally.

19

21

AIG's three principal asset management operations are SunAmerica's asset management operations (SAMCO), AIG Global Investment Group, Inc. (Global Investment) and AIG Capital Partners, Inc. (Cap Partners). SAMCO develops and sells variable annuities and other investment products, sells and manages mutual funds and provides financial services. Global Investment manages invested assets of institutions, including insurance companies and pension funds, and provides custodial services. Cap Partners organizes, and manages the invested assets of institutional investment funds and may also invest in such funds. Each of these subsidiary operations receives fees for investment products and services provided.

Asset management operations for the nine month periods ending September 30, 1999 and 1998 were as follows:

(in millions)

	1999	1998
Revenues	\$705	\$519
Operating income	\$218	\$140

These increases were primarily attributable to management of the variable annuity business by SAMCO.

Asset management operating income in the first nine months of 1999 increased 55.4 percent when compared to the same period of 1998.

Asset management operating income represented 3.9 percent of AIG's income before income taxes and minority interest in the first nine months of 1999. This compares to 3.0 percent in the same period of 1998.

#### OTHER OPERATIONS

In the first nine months of 1998, AIG's equity in income of minority-owned insurance operations was \$57 million. In the first nine months of 1998, the equity interest in insurance companies represented 1.2 percent of income before income taxes and minority interest. In 1999, AIG did not report equity in income of minority-owned insurance operations as a result of the consolidation of Transatlantic's and SELIC Holdings, Ltd. operations into general insurance operating results. IPC Holdings, Ltd., the remaining operation included in equity in income of minority-owned insurance operations in previous periods is now reported as a component of other income (deductions) -- net.

Other realized capital losses amounted to \$18 million and \$11 million in the first nine months of 1999 and 1998, respectively.

Other income (deductions) -- net includes AIG's equity in certain minority-owned subsidiaries and certain partially owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, costs associated with the Year 2000 computer issues, as well as the income and expenses of the parent holding company and other miscellaneous income and

expenses. In the first nine months of 1999, net deductions amounted to \$135 million. In the same period of 1998, net deductions amounted to \$106 million. (See also the discussion under "Recent Developments" herein.)

Income before income taxes and minority interest amounted to \$5.58 billion in the first nine months of 1999 and \$4.62 billion in the same period of 1998.

In the first nine months of 1999, AIG recorded a provision for income taxes of \$1.64 billion compared to the provision of \$1.33 billion in the same period of 1998. These provisions represent effective tax rates of 29.4 percent in the first nine months of 1999 and 28.7 percent in the same period of 1998.

Minority interest represents minority shareholders' equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to \$201 million and \$132 million in the first nine months of 1999 and 1998, respectively. The increase in 1999 from 1998 was primarily related to the minority shareholders' equity resulting when Transatlantic and 20th Century were consolidated during the third quarter of 1998.

Net income amounted to \$3.74 billion in the first nine months of 1999 and \$3.16 billion in the same period of 1998. The increases in net income over the periods resulted from those factors described above.

#### CAPITAL RESOURCES

At September 30, 1999, AIG had total capital funds of \$32.30 billion and total borrowings of \$32.55 billion. At that date, \$28.94 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

20

22

Total borrowings and borrowings not guaranteed or matched at September 30, 1999 and December 31, 1998 were as follows:

(in millions)

	1999	1998
GIAs -- AIGFP	\$ 8,822	\$ 9,188
Commercial Paper:		
AIG Funding	427	637
ILFC (a)	2,548	3,204
AICCO	618	727
Universal Finance Company (UFC) (a)	83	68
Total	3,676	4,636
Medium Term Notes:		
ILFC (a)	4,229	3,348
AIG	282	239
SunAmerica	211	228
Total	4,722	3,815
Notes and Bonds Payable:		
ILFC (a)	4,315	3,825
AIGFP	8,119	7,265
AIG: Lire bonds	159	159
Zero coupon notes	110	102

SunAmerica	864	989
-----		
Total	13,567	12,340
-----		
Loans and Mortgages Payable:		
ILFC(a) (b)	698	811
AIG Finance (Hong Kong) Limited(a)	539	532
AIG Consumer Finance(a)	224	254
AIG	302	334
-----		
Total	1,763	1,931
-----		
Total Borrowings	32,550	31,910
-----		
Borrowings not guaranteed by AIG	12,636	12,042
Matched GIA borrowings	8,822	9,188
Matched notes and bonds payable -- AIGFP	7,479	6,565
-----		
	28,937	27,795
-----		
Remaining borrowings of AIG	\$ 3,613	\$ 4,115
-----		

(a)AIG does not guarantee or support these borrowings.

(b)Capital lease obligations.

The maturity distributions of total borrowings at September 30, 1999 and December 31, 1998 were as follows:

(in millions)

	1999	1998
-----		
Short-term borrowings	\$ 9,795	\$ 9,190
Long-term borrowings(a)	22,755	22,720
-----		
Total borrowings	\$32,550	\$31,910
-----		

(a)Including commercial paper and excluding that portion of long-term debt maturing in less than one year.

During the first nine months of 1999, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to \$8.12 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under "Operational Review", "Liquidity" and "Derivatives" herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC, A.I. Credit Corp. (AICCO) and UFC, a consumer finance subsidiary in Taiwan, issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's, ILFC's or UFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. From time to time, AIGFP may issue commercial paper, which AIG

guarantees, to fund its operations. At September 30, 1999, AIGFP had no commercial paper outstanding. (See also the discussion under "Derivatives" herein.)

AIG and Funding have entered into two syndicated revolving credit facilities (the Facilities) aggregating \$1 billion. The Facilities consist of a \$500 million 364 day revolving credit facility and a \$500 million five year revolving credit facility. The Facilities can be used for general corporate purposes and also provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding as of September 30, 1999.

At September 30, 1999, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to \$8.54 billion, a net increase of \$1.37 billion, and recorded a net decline in its capital lease obligations of \$113 million and a net decrease in its commercial paper of \$656 million. At September 30, 1999, ILFC had \$1.68 billion in aggregate principal amount of debt securities registered for issuance from time to time. In addition, ILFC established a Euro Medium Term Note Program for \$2.0 billion, under which \$771 million in notes were sold through September 30, 1999.

ILFC has an Export Credit Facility, up to a maximum of \$4.3 billion, for approximately 75 aircraft to be delivered from 1999 through 2001. ILFC has the right, but is not required, to use the

21

23

facility to fund 85 percent of each aircraft's purchase price. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on the first 75 aircraft depending on the delivery date of the aircraft. Through September 30, 1999, ILFC borrowed \$1.12 billion under this facility. Borrowings with respect to this facility are included in Notes and Bonds Payable in the accompanying table of borrowings.

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

During the first nine months of 1999, AIG issued \$93 million principal amount of Medium Term Notes and \$50 million of previously issued notes matured.

At September 30, 1999, AIG had \$415 million in aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds increased \$2.18 billion during the first nine months of 1999. Unrealized appreciation of investments, net of taxes decreased \$1.49 billion. During the first nine months of 1999, the cumulative translation adjustment loss, net of taxes increased \$357 million. The change from period to period with respect to the unrealized appreciation of investments, net of taxes was primarily impacted by interest rates. (See also the discussion under "Operational Review" and "Liquidity" herein.) Retained earnings increased \$2.70 billion, resulting from net income less dividends.

During the period from January 1, 1999 through June 25, 1999 (the record date with respect to the five for four split in the form of a 25 percent common stock dividend), AIG repurchased in the open market 931,000 shares of its common stock. Subsequent to June 25, 1999 through October 29, 1999, AIG repurchased 1,055,500 shares of its common stock. AIG intends to continue to buy its common shares in the open market to satisfy its obligations under various employee benefit plans.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past

reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At September 30, 1999, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein.)

The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At September 30, 1999, the adjusted capital of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards by considerable margins.

A substantial portion of AIG's general insurance business and a majority of its life insurance business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements.

#### LIQUIDITY

AIG's liquidity is primarily derived from the operating cash flows of its general and life insurance operations.

At September 30, 1999, AIG's consolidated invested assets included \$6.29 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first nine months of 1999 amounted to \$7.95 billion.

Sources of funds considered in meeting the objectives of AIG's financial services operations include guaranteed investment agreements, issuance of long and short-term debt, maturities and sales of securities available for sale, securities sold under repurchase agreements, trading liabilities, securities and spot commodities sold but not yet purchased,

22

24

issuance of equity, and cash provided from such operations. AIG's strong capital position is integral to managing this liquidity, as it enables AIG to raise funds in diverse markets worldwide. (See also the discussions under "Capital Resources" herein.)

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately \$14.9 billion in pre-tax cash flow during the first nine months of 1999. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately \$6.3 billion in investment income cash flow during the first nine months of 1999. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses.

In addition to the combined insurance pre-tax operating cash flow, AIG's insurance operations held \$5.9 billion in cash and short-term investments at September 30, 1999. The aforementioned operating cash flow and the cash and short-term balances held provided AIG's insurance operations with a significant

amount of liquidity.

This liquidity is available, among other things, to purchase high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy loans and collateral loans. This cash flow coupled with proceeds of approximately \$33 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately \$45 billion of fixed income securities and marketable equity securities during the first nine months of 1999.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued of \$2.12 billion and \$1.87 billion and real estate of \$1.59 billion and \$1.61 billion at September 30, 1999 and December 31, 1998, respectively:

(dollars in millions)

	September 30, 1999		December 31, 1998	
	INVESTED ASSETS	Percent of Total	Invested Assets	Percent of Total
General insurance	\$ 39,397	21.1%	\$ 38,883	22.7%
Life insurance	85,052	45.5	75,078	43.8
Financial services and asset management	61,852	33.1	56,619	33.1
Other	660	0.3	714	0.4
Total	\$186,961	100.0%	\$171,294	100.0%

23

25

#### INSURANCE INVESTED ASSETS

The following tables summarize the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at September 30, 1999 and December 31, 1998:

(dollars in millions)

SEPTEMBER 30, 1999	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION	
					DOMESTIC	FOREIGN
Fixed maturities:						
Available for sale, at market value(a)	\$17,089	\$59,829	\$ 76,918	61.8%	55.5%	44.5%
Held to maturity, at amortized cost	12,236	--	12,236	9.8	100.0	--
Equity securities, at market value(b)	3,543	2,536	6,079	4.9	48.3	51.7
Mortgage loans on real estate, policy and collateral loans	70	10,518	10,588	8.5	57.3	42.7
Short-term investments, including time deposits, and cash	917	4,961	5,878	4.8	40.5	59.5
Real estate	379	1,119	1,498	1.2	18.5	81.5
Investment income due and accrued	639	1,367	2,006	1.6	54.1	45.9
Other invested assets	4,524	4,722	9,246	7.4	84.6	15.4
Total	\$39,397	\$85,052	\$124,449	100.0%	60.6%	39.4%

(a) Includes \$1,034 of bonds trading securities, at market value.

(b) Includes \$617 of preferred stock, at market value.

(dollars in millions)

December 31, 1998	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution	
					Domestic	Foreign
Fixed maturities:						
Available for sale, at market value(a)	\$15,939	\$51,237	\$ 67,176	59.0%	56.4%	43.6%
Held to maturity, at amortized cost	12,658	--	12,658	11.1	100.0	--
Equity securities, at market value(b)	3,923	2,092	6,015	5.3	54.1	45.9
Mortgage loans on real estate, policy and collateral loans	70	9,894	9,964	8.7	55.5	44.5
Short-term investments, including time deposits, and cash	873	5,835	6,708	5.9	42.6	57.4
Real estate	393	1,124	1,517	1.3	18.2	81.8
Investment income due and accrued	568	1,197	1,765	1.5	51.2	48.8
Other invested assets	4,459	3,699	8,158	7.2	85.9	14.1
Total	\$38,883	\$75,078	\$113,961	100.0%	61.7%	38.3%

(a) Includes \$1,005 of bonds trading securities, at market value.

(b) Includes \$593 of preferred stock, at market value.

24

26

Generally, insurance regulations restrict the types of assets in which an insurance company may invest.

With respect to fixed maturities, AIG's general strategy is to invest in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. With respect to general insurance, AIG's strategy is to invest in longer duration fixed maturities to maximize the yields at the date of purchase. With respect to life insurance, AIG's strategy is to produce cash flows required to meet maturing insurance liabilities. (See also the discussion under "Operational Review: Life Insurance Operations" herein.)

The fixed maturities available for sale portfolio is subject to decline in fair value as interest rates rise. Such declines in fair value are presented in unrealized appreciation of investments, net of taxes as a component of comprehensive income.

The fixed maturities held to maturity portfolio is exposed to adverse interest rate fluctuations. However, AIG has the ability and intent to hold such securities to maturity. Therefore, there would be no detrimental impact to AIG's results of operations or financial condition as a result of such fluctuations.

At September 30, 1999, approximately 61.6 percent of the fixed maturities investments were domestic securities. Approximately 39 percent of such domestic securities were rated AAA. Approximately 13 percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At September 30, 1999, approximately 16 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 10 percent were below investment grade or not rated at that date. A large portion of these fixed maturity securities are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

At September 30, 1999, approximately 16 percent of the fixed maturities portfolio was collateralized mortgage obligations (CMOs), including commercial mortgage backed securities. Substantially all of the CMOs were investment grade and approximately 19 percent of the CMOs were backed by various U.S. government agencies. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the changes in prepayments of the underlying mortgages.

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

AIG invests in equities for reasons including diversifying its overall exposure to interest rate risk. Equity securities are subject to declines in fair value. Such declines in fair value are presented in unrealized appreciation of investments, net of taxes as a component of comprehensive income.

Mortgage loans on real estate, policy and collateral loans comprised 8.5 percent of AIG's insurance invested assets at September 30, 1999. AIG's insurance operations' holdings of real estate mortgages amounted to \$6.76 billion of which 74.6 percent was domestic. At September 30, 1999, only a nominal amount were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At September 30, 1999, AIG's insurance holdings of collateral loans amounted to \$1.08 billion, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans increased from \$2.63 billion at December 31, 1998 to \$2.76 billion at September 30, 1999.

Short-term investments represent amounts invested in various internal and external money market funds, time deposits and cash held.

AIG's real estate investment properties are primarily occupied by AIG's various operations. The current market value of these properties considerably exceeds their carrying value.

Other invested assets were primarily comprised of both foreign and domestic private placements, limited partnerships and outside managed funds.

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements

25

27

in foreign currency exchange rates, interest rates and equity prices, AIG and its insurance subsidiaries may enter into derivative transactions as end users. To date, such activities have not been significant. (See also the discussion under "Derivatives" herein.)

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

AIG's insurance operations are exposed to market risk. Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest and foreign currency exchange rates and equity prices.

Measuring potential losses in fair values has recently become the focus of risk management efforts by many companies. Such measurements are performed through the application of various statistical techniques. One such technique is Value at Risk (VaR). VaR is a summary statistical measure that uses historical interest and foreign currency exchange rates and equity prices and estimates the volatility and correlation of each of these rates and prices to calculate the maximum loss that could occur over a defined period of time given a certain probability.

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

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

Due to the nature of each insurance segment, AIG manages the general and life insurance operations separately. As a result, AIG manages separately the invested assets of each. Accordingly, the VaR analysis was separately performed for the general and the life insurance operations.

AIG calculated the VaR with respect to the net fair value of each of AIG's insurance segments as of June 30, 1999 and December 31, 1998. Through September 30, 1999, the economic facts and circumstances have not significantly changed. Therefore, the VaR at June 30, 1999 was representative of a VaR at September 30, 1999. These calculations used the variance-covariance (delta-normal) methodology. These calculations also used daily historical interest and foreign currency exchange rates and equity prices in the two years ending June 30, 1999 and December 31, 1998, as applicable. The VaR model estimated the volatility of each of these rates, equity prices and the correlations among them. For interest rates, each country's yield curve was constructed using eleven separate points on this curve to model possible curve movements. Inter-country correlations were also used. The redemption experience of municipal and corporate fixed maturities and mortgage securities was taken into account as well as the use of financial modeling. Thus, the VaR measured the sensitivity of the asset and the liability portfolios of each of the aforementioned market exposures. Each sensitivity was estimated separately to capture the market exposures within each insurance segment. These sensitivities were then applied to a database, which contained both historical ranges of movements in all market factors and the correlations among them. The results were aggregated to provide a single amount that depicts the maximum potential loss in fair value at a confidence level of 95 percent for a time period of one month. At June 30, 1999 and December 31, 1998 the VaR of AIG's insurance segments was approximately \$864 million and \$760 million for general insurance, respectively, and \$1.06 billion and \$981 million for life insurance, respectively.

The following table presents the VaR of each component of market risk for each of AIG's insurance segments as of June 30, 1999 and December 31, 1998. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

26

28

(in millions)

MARKET RISK	GENERAL INSURANCE		LIFE INSURANCE	
	1999	1998	1999	1998
Interest rate	\$309	\$232	\$844	\$809
Currency	41	26	530	457
Equity	790	716	363	254

FINANCIAL SERVICES AND ASSET MANAGEMENT INVESTED ASSETS

The following table is a summary of the composition of AIG's financial services and asset management invested assets at September 30, 1999 and December 31, 1998. (See also the discussions under "Operational Review: Financial Services Operations", "Operational Review: Asset Management Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in millions)

	1999		1998	
	INVESTED ASSETS	Percent of Total	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	\$17,312	28.0%	\$16,330	28.8%
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,162	11.6	9,881	17.5
Securities available for sale, at market value	12,731	20.6	10,674	18.9
Trading securities, at market value	5,392	8.7	5,668	10.0
Securities purchased under agreements to resell, at contract value	10,265	16.6	4,838	8.5
Trading assets	5,910	9.6	6,229	11.0
Spot commodities, at market value	622	1.0	476	0.8
Other, including short-term investments	2,458	3.9	2,523	4.5
<b>Total</b>	<b>\$61,852</b>	<b>100.0%</b>	<b>\$56,619</b>	<b>100.0%</b>

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During the first nine months of 1999, ILFC acquired flight equipment costing \$2.83 billion.

ILFC is exposed to market risk and the risk of loss of fair value resulting from adverse fluctuations in interest rates. As of June 30, 1999 and December 31, 1998, AIG statistically measured the aforementioned loss of fair value through the application of a VaR model. In this analysis, the net fair value of ILFC was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue and the financial instrument liabilities which included the future servicing of the current debt. The estimated impact of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of ILFC using the variance-covariance (delta-normal) methodology. This calculation also used daily historical interest rates for the two years ending June 30, 1999 and December 31, 1998. The VaR model estimated the volatility of each of these interest rates and the correlation among them. The yield curve was constructed using eleven key points on the curve to model possible curve movements. Thus, the VaR measured the sensitivity of the assets and liabilities to the calculated interest rate exposures. These sensitivities were then applied to a database, which contained the historical ranges of movements in interest rates and the correlation among them. The results were aggregated to provide a single amount that depicts the maximum potential loss in fair value of a confidence level of 95 percent for a time period of one month. As of June 30, 1999 and December 31, 1998, the VaR with respect to the aforementioned net fair value of ILFC was approximately \$14 million and \$9 million, respectively. Through September 30, 1999, the economic facts and circumstances have not significantly changed. Therefore, the VaR at June 30, 1999 was representative of a VaR at September 30, 1999.

AIGFP's derivative transactions are carried at market value or at estimated fair value when market prices are not readily available. AIGFP reduces its

economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. The estimated fair values of these transactions represent assessments of the present value of expected future cash flows. These transactions are exposed to liquidity risk if AIGFP were to sell or close out the transactions prior to maturity. AIG believes that the impact of any such limited liquidity would not be significant

to AIG's financial condition or its overall liquidity. (See also the discussion under "Operational Review: Financial Services Operations" and "Derivatives" herein.)

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

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At September 30, 1999, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with \$229 million of these securities. There were no securities deemed below investment grade at September 30, 1999. There have been no significant downgrades through November 1, 1999. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

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

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at September 30, 1999 were as follows:

(in millions)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value	\$ 555	\$ 520
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions(a) (b)	7,162	7,062
Trading assets	4,967	2,999
Spot commodities, at market value	8	--
Trading liabilities	--	2,501
Securities and spot commodities sold but not yet purchased, at market value	276	--

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

(b) At September 30, 1999, AIGTG's replacement values with respect to interest rate and currency swaps were \$386 million.

AIGFP's interest rate and currency risks on securities available for sale, at market, are managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At September 30, 1999, the unrealized gains and losses remaining after the benefit of the offsets were \$41 million and \$6 million, respectively.

Trading securities, at market value, and securities and spot commodities sold but not yet purchased, at market value are marked to market daily with the unrealized gain or loss being recognized in

28

30

income at that time. These securities are held to meet the short-term risk management objectives of AIGFP and AIGTG.

The senior management of AIG defines the policies and establishes general operating parameters for AIGFP and AIGTG. AIG's senior management has established various oversight committees to review the various financial market, operational and credit issues of AIGFP and AIGTG. The senior managements of AIGFP and AIGTG report the results of their respective operations to and review future strategies with AIG's senior management.

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

Market risk arises principally from the uncertainty that future earnings are exposed to potential changes in volatility, interest rates, foreign currency exchange rates, and equity and commodity prices. AIG generally controls its exposure to market risk by taking offsetting positions. AIG's philosophy with respect to its financial services operations is to minimize or set limits for open or uncovered positions that are to be carried. Credit risk exposure is separately managed. (See the discussion on the management of credit risk below.)

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

AIGFP is exposed to market risk due to changes in the level and volatility of interest rates and the shape and slope of the yield curve. AIGFP hedges its exposure to interest rate risk by entering into transactions such as interest rate swaps and options and purchasing U.S. and foreign government obligations.

AIGFP is exposed to market risk due to changes in and volatility of foreign currency exchange rates. AIGFP hedges its foreign currency exchange risk primarily through the use of currency swaps, options, forwards and futures.

AIGFP is exposed to market risk due to changes in the level and volatility of equity prices which affect the value of securities or instruments that derive their value from a particular stock, a basket of stocks or a stock index. AIGFP reduces the risk of loss inherent in its inventory in equity securities by entering into hedging transactions, including equity swaps and options and purchasing U.S. and foreign government obligations.

AIGFP does not seek to manage the market risk of each of its transactions through an individual offsetting transaction. Rather, AIGFP takes a portfolio approach to the management of its market risk exposure. AIGFP values its portfolio at market value or estimated fair value when market values are not readily available. These valuations represent an assessment of the present

values of expected future cash flows of AIGFP's transactions and may include reserves for such risks as are deemed appropriate by AIGFP's and AIG's management. AIGFP evaluates the portfolio's discounted cash flows with reference to current market conditions, maturities within the portfolio and other relevant factors. Based upon this evaluation, AIGFP determines what, if any, offsetting transactions are necessary to reduce the market risk exposure of the portfolio.

The aforementioned estimated fair values are based upon the use of valuation models. These models utilize, among other things, current interest, foreign exchange and volatility rates. These valuation models are integrated into the evaluation of the portfolio, as described above, in order to provide timely information for the market risk management of the portfolio.

Additionally, depending upon the changes in interest rates and other market movements during the day, the system will produce reports for management's consideration for intra-day offsetting positions. Overnight, the system generates reports which recommend the types of offsets management should consider for the following day. Additionally, AIGFP operates in major business centers overseas and is essentially open for business 24 hours a day. Thus, the market exposure and offset strategies are monitored, reviewed and coordinated around the clock. Therefore, offsetting adjustments can be made as and when necessary from any AIGFP office in the world.

29

31

As part of its monitoring and controlling of its exposure to market risk, AIGFP applies various testing techniques which reflect potential market movements. These techniques vary by currency and are regularly changed to reflect factors affecting the derivatives portfolio. In addition to the daily monitoring, AIGFP's senior management and local risk managers conduct a weekly review of the derivatives portfolio and existing hedges. This review includes an examination of the portfolio's risk measures, such as aggregate option sensitivity to movements in market variables. AIGFP's management may change these measures to reflect their judgment and evaluation of the dynamics of the markets. This management group will also determine whether additional or alternative action is required in order to manage the portfolio. AIG utilizes an outside consultant to provide the managements of AIG and AIGFP with comfort that the system produces representative values.

All of AIGTG's market risk sensitive instruments are entered into for trading purposes. The fair values of AIGTG's financial instruments are exposed to market risk as a result of adverse market changes in interest rates, foreign currency exchange rates, commodity prices and adverse changes in the liquidity of the markets in which AIGTG trades.

AIGTG's approach to managing market risk is to establish an appropriate offsetting position to a particular transaction or group of transactions depending upon the extent of market risk AIGTG expects to reduce.

AIGTG's senior management has established positions and stop-loss limits for each line of business. AIGTG's traders are required to maintain positions within these limits. These positions are monitored during the day either manually and/or through on-line computer systems. In addition, these positions are reviewed by AIGTG's management. Reports which present each trading books position and the prior day's profit and loss are reviewed by traders, head traders and AIGTG's senior management. Based upon these and other reports, AIGTG's senior management may determine to adjust AIGTG's risk profile.

AIGTG attempts to secure reliable current market prices, such as published prices or third party quotes, to value its derivatives. Where such prices are not available, AIGTG uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions. The methodology may reflect interest and exchange rates, commodity prices, volatility rates and other relevant factors.

A significant portion of AIGTG's business is transacted in liquid markets. Certain of AIGTG's derivative product exposures are evaluated using simulation

techniques which consider such factors as changes in currency and commodity prices, interest rates, volatility levels and the effect of time. Though not indicative of the future, past volatile market scenarios have represented profit opportunities for AIGTG.

AIGFP and AIGTG are both exposed to the risk of loss of fair value from adverse fluctuations in interest rate and foreign currency exchange rates and equity and commodity prices. AIG statistically measured the losses of fair value through the application of a VaR model. AIG separately calculated the VaR with respect to AIGFP and AIGTG, as AIG manages these operations separately.

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

AIG calculated the VaR with respect to AIGFP and AIGTG as of June 30, 1999 and December 31, 1998. Through September 30, 1999, the trading activities and exposures have not significantly changed. Therefore, the VaR at June 30, 1999 was representative of a VaR at September 30, 1999. These calculations used the variance-covariance (delta-normal) methodology. These calculations also used, where appropriate for each entity, daily historical interest and foreign currency exchange rates and equity/commodity prices in the two years ending June 30, 1999 and December 31, 1998, as applicable. The VaR model estimated the volatility of each of these rates, prices and the correlations among them. For interest rates, the yield curves of the United States and certain foreign countries were constructed using eleven separate points on each country's yield curve to model possible curve movements. Inter-country correlations were also used. The redemption experience of corporate fixed maturities was taken into account. Thus, the VaR measured the sensitivity of the asset

and the liability portfolios of each of the market exposures. Each sensitivity was estimated separately to capture the market exposures within each entity. These sensitivities were then applied to a database, which contained both historical ranges of movements in all market factors and the correlations among them. The results depict the maximum potential loss in fair value at a confidence level of 95 percent.

Given the distinct business strategies at AIGFP and AIGTG, the VaR calculations used different time periods to measure market exposures. Many of AIGFP's customized, longer-term contracts may require several days to transact and hedge. AIG therefore used a one month holding period to measure market exposures for AIGFP. The large majority of AIGTG's contracts can be arranged and hedged within one day. AIG therefore used a one day holding period to measure market exposures at AIGTG.

The following table presents the VaR on a combined basis and of each component of AIGFP's and AIGTG's market risk as of June 30, 1999 and December 31, 1998. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

(in millions)

MARKET RISKS	AIGFP (A)		AIGTG (b)	
	1999	1998	1999	1998
Combined	\$29	\$42	\$ 4	\$ 3
Interest rate	29	42	1	3
Currency	--	--	2	2

- (a) A one month holding period was used to measure the market exposures of AIGFP.  
(b) A one day holding period was used to measure the market exposures of AIGTG.

#### DERIVATIVES

Derivatives are financial arrangements among two or more parties whose returns are linked to or "derived" from some underlying equity, debt, commodity or other asset, liability, or index. Derivatives payments may be based on interest rates and exchange rates and/or prices of certain securities, certain commodities, or financial or commodity indices. The more significant types of derivative arrangements in which AIG transacts are swaps, forwards, futures, options and related instruments.

The most commonly used swaps are interest rate swaps, currency swaps, equity swaps and swaptions. Such derivatives are traded over the counter. An interest rate swap is a contract between two parties to exchange interest rate payments (typically a fixed interest rate versus a variable interest rate) calculated on a notional principal amount for a specified period of time. The notional amount is not exchanged. Currency and equity swaps are similar to interest rate swaps but may involve the exchange of principal amounts at the commencement and termination of the swap. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

A futures or forward contract is a legal contract between two parties to purchase or sell at a specified future date a specified quantity of a commodity, security, currency, financial index or other instrument, at a specified price. A futures contract is traded on an exchange, while a forward contract is executed over the counter.

Over the counter derivatives are not transacted in an exchange traded environment. The futures exchanges maintain considerable financial requirements and surveillance to ensure the integrity of exchange traded futures and options.

An option contract generally provides the option purchaser with the right but not the obligation to buy or sell during a period of time or at a specified date the underlying instrument at a set price. The option writer is obligated to sell or buy the underlying item if the option purchaser chooses to exercise his right. The option writer receives a nonrefundable fee or premium paid by the option purchaser. Options may be traded over the counter or on an exchange.

Derivatives are generally either negotiated over the counter contracts or standardized contracts executed on an exchange. Standardized exchange traded derivatives include futures and options which can be readily bought or sold over recognized secur-

ity or commodity exchanges and settled daily through such clearing houses. Negotiated over the counter derivatives include forwards, swaps and options. Over the counter derivatives are generally not traded like exchange traded securities. However, in the normal course of business, with the agreement of the original counterparty, these contracts may be terminated early or assigned to another counterparty.

All significant derivatives activities are conducted through AIGFP and AIGTG permitting AIG to participate in the derivatives dealer market acting primarily as principal. In these derivative operations, AIG structures agreements which generally allow its counterparties to enter into transactions with respect to changes in interest and exchange rates, securities' prices and certain commodities and financial or commodity indices. Generally, derivatives are used by AIG's customers such as corporations, financial institutions, multinational organizations, sovereign entities, government agencies and

municipalities. For example, a futures, forward or option contract can be used to protect the customers' assets or liabilities against price fluctuations.

A counterparty may default on any obligation to AIG, including a derivative contract. Credit risk is a consequence of extending credit and/or carrying trading and investment positions. Credit risk exists for a derivative contract when that contract has an estimated positive fair value. To help manage this risk, the credit departments of AIGFP and AIGTG operate within the guidelines of the AIG Credit Risk Committee, which sets credit policy and limits for counterparties and provides limits for derivative transactions with counterparties having different credit ratings. In addition to credit ratings, this committee takes into account other factors, including the industry and country of the counterparty. Transactions which fall outside these pre-established guidelines require the approval of the AIG Credit Risk Committee. It is also AIG's policy to establish reserves for potential credit impairment when necessary.

AIGFP and AIGTG determine the credit quality of each of their counterparties taking into account credit ratings assigned by recognized statistical rating organizations. If it is determined that a counterparty requires credit enhancement, then one or more enhancement techniques will be used. Examples of such enhancement techniques include letters of credit, guarantees, collateral credit triggers and credit derivatives and margin agreements.

A significant majority of AIGFP's transactions are contracted and documented under ISDA Master Agreements that provide for legally enforceable set-offs in the event of a default or in connection with the termination of a transaction. Under such agreements, AIGFP is permitted to set-off its receivables from a counterparty against AIGFP's payables to that same counterparty arising out of all included transactions. Excluding regulated exchange transactions, AIGTG, whenever possible, enters into netting agreements with its counterparties which are similar in effect to those discussed above.

The following tables provide the notional and contractual amounts of AIGFP's and AIGTG's derivative transactions at September 30, 1999 and December 31, 1998.

The notional amounts used to express the extent of AIGFP's and AIGTG's involvement in swap transactions represent a standard of measurement of the volume of AIGFP's and AIGTG's swaps business. Notional amount is not a quantification of market risk or credit risk and it may not necessarily be recorded on the balance sheet. Notional amounts represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.

The timing and the amount of cash flows relating to AIGFP's and AIGTG's foreign exchange forwards and exchangetraded futures and options contracts are determined by each of the respective contractual agreements.

The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss after the application of the aforementioned strategies, netting under ISDA Master Agreements and applying collateral held.

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at September 30, 1999 and December 31, 1998:

(in millions)

	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1999	TOTAL 1998
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	\$ 79,471	\$115,469	\$66,720	\$ 7,044	\$268,704	\$255,917
Currency swaps	26,878	27,552	21,183	3,458	79,071	73,894
Swaptions and equity swaps	4,565	20,191	10,869	2,855	38,480	15,685
<b>Total</b>	<b>\$110,914</b>	<b>\$163,212</b>	<b>\$98,772</b>	<b>\$13,357</b>	<b>\$386,255</b>	<b>\$345,496</b>
Futures and forward contracts:						
Exchange traded futures contracts contractual amount	\$ 12,552	--	--	--	\$ 12,552	\$ 8,290
Over the counter forward contracts contractual amount	\$ 31,801	\$ 342	\$ 50	--	\$ 32,193	\$ 42,898

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At September 30, 1999 and December 31, 1998, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE		TOTAL 1999	TOTAL 1998
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS		
Counterparty credit quality:				
AAA	\$2,036	\$ --	\$2,036	\$2,360
AA	2,378	65	2,443	3,688
A	1,457	68	1,525	1,883
BBB	624	--	624	1,085
Below investment grade	88	--	88	210
<b>Total</b>	<b>\$6,583</b>	<b>\$133</b>	<b>\$6,716</b>	<b>\$9,226</b>

At September 30, 1999 and December 31, 1998, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE		TOTAL 1999	TOTAL 1998
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS		
Non-U.S. banks	\$2,410	\$117	\$2,527	\$2,877
Insured municipalities	456	--	456	784
U.S. industrials	806	--	806	1,125
Governmental	320	7	327	603
Non-U.S. financial service companies	117	--	117	272
Non-U.S. industrials	661	--	661	1,145
Special purpose	434	--	434	423
U.S. banks	173	9	182	911
U.S. financial service companies	714	--	714	932
Supranationals	492	--	492	154
<b>Total</b>	<b>\$6,583</b>	<b>\$133</b>	<b>\$6,716</b>	<b>\$9,226</b>

The following tables provide the contractual and notional amounts of AIGTG's derivatives portfolio at September 30, 1999 and December 31, 1998. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the

September 30, 1999 balances based upon the expected timing of the future cash flows.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at September 30, 1999 and December 31, 1998. These values do not represent the credit risk to AIGTG.

Net replacement values presented represent the net sum of estimated positive fair values after the application of legally enforceable master netting agreements and collateral held. The net replacement values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss.

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at September 30, 1999 and December 31, 1998:

(in millions)

	REMAINING LIFE				TOTAL 1999	TOTAL 1998
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS		
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	\$ 12,026	\$ 3,012	\$ 45	\$ --	\$ 15,083	\$ 11,836
Forwards	\$223,563	\$17,588	\$2,670	\$ 3	\$243,824	\$282,157
Over the counter purchased options	\$ 48,273	\$19,549	\$4,300	\$2,046	\$ 74,168	\$ 58,860
Over the counter sold options(a)	\$ 47,978	\$19,221	\$4,787	\$1,910	\$ 73,896	\$ 58,861
Notional amount:						
Interest rate swaps and forward rate agreements	\$ 48,489	\$ 9,152	\$3,772	\$ 726	\$ 62,139	\$110,791
Currency swaps	2,138	4,215	679	--	7,032	7,512
Swaptions	740	6,106	1,668	198	8,712	5,766
Total	\$ 51,367	\$19,473	\$6,119	\$ 924	\$ 77,883	\$124,069
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	\$ 5,830	\$ 1,670	\$ 260	\$ 34	\$ 7,794	\$ 9,791
Master netting arrangements	(3,285)	(915)	(159)	(11)	(4,370)	(5,610)
Collateral	(85)	(62)	(11)	--	(158)	(359)
Net replacement value(b)	\$ 2,460	\$ 693	\$ 90	\$ 23	\$ 3,266	\$ 3,822

(a) Sold options obligate AIGTG to buy or sell the underlying item if the option purchaser chooses to exercise. The amounts do not represent credit exposure.

(b) The net replacement values with respect to exchange traded futures and options, forward contracts and purchased over the counter options are presented as a component of trading assets in the accompanying balance sheet. The net replacement values with respect to interest rate and currency swaps are presented as a component of unrealized gain on interest rate and currency swaps, options and forward transactions in the accompanying balance sheet.

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At September 30, 1999 and December 31, 1998, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE	
	1999	1998
Counterparty credit quality:		
AAA	\$ 471	\$ 462
AA	1,322	1,821
A	831	1,066
BBB	302	221
Below investment grade	75	26
Not externally rated, including exchange traded futures and options*	265	226
Total	\$3,266	\$3,822
Counterparty breakdown by industry:		
Non-U.S. banks	\$1,006	\$1,253
U.S. industrials	68	381
Governmental	233	184
Non-U.S. financial service companies	755	406
Non-U.S. industrials	191	150
U.S. banks	365	593
U.S. financial service companies	383	629
Exchanges*	265	226
Total	\$3,266	\$3,822

\* Exchange traded futures and options are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled on a daily basis.

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

As an end user, AIG and its subsidiaries, including its insurance subsidiaries, use derivatives to aid in managing AIG's foreign exchange translation exposure. Derivatives may also be used to minimize certain exposures with respect to AIG's debt financing and its insurance operations; to date, such activities have not been significant.

AIG has formed a Derivatives Review Committee. This committee, with certain exceptions, provides an independent review of any proposed derivative transaction. The committee examines, among other things, the nature and purpose of the derivative transaction, its potential credit exposure, if any, and the estimated benefits. This committee does not review those derivative transactions entered into by AIGFP and AIGTG for their own account.

AIG, through its Foreign Exchange Operating Committee, evaluates each of its worldwide consolidated foreign currency net asset or liability positions and manages AIG's translation exposure to adverse movement in currency exchange rates. AIG may use forward exchange contracts and purchase options where the cost of such is reasonable and markets are liquid to reduce these exchange translation exposures. The exchange gain or loss with respect to these hedging instruments is recorded on an accrual basis as a component of comprehensive income in capital funds.

Legal risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of AIG's clients and counterparties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations. (See also the discussion on master netting agreements above.) AIG seeks to eliminate or minimize such uncertainty through continuous consultation with internal and external legal advisors, both domestically and abroad, in order to understand the nature of legal risk, to

improve documentation and to strengthen transaction structure.

#### ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 131 "Disclosure about

35

37

Segments of an Enterprise and Related Information" (FASB 131). FASB 131 establishes standards for the way AIG is required to disclose certain information about its operating segments in its annual financial statements and certain selected information in its interim financial statements. FASB 131 establishes, where practicable, standards with respect to geographic areas, among other things. Certain descriptive information is also required. FASB 131 was effective for the year ended December 31, 1998 and has been adopted herein.

In February 1998, FASB issued Statement of Financial Accounting Standards No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits" (FASB 132). This statement requires AIG to revise its disclosures about pension and other postretirement benefit plans and does not change the measurement or recognition of these plans. Also, FASB 132 requires additional information on changes in the benefit obligations and fair values of plan assets. AIG adopted all requirements of FASB 132 at December 31, 1998.

In June 1998, FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). This statement requires AIG to recognize all derivatives in the consolidated balance sheet measuring these derivatives at fair value. The recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative. Currently, AIGTG and AIGFP present, in all material respects, the changes in fair value of their derivative transactions as a component of AIG's operating income. AIG is evaluating the impact of FASB 133 with respect to derivative transactions entered into by other AIG operations. AIG believes that the impact of FASB 133 on its results of operations, financial condition or liquidity will not be significant. FASB 133 is effective for the year commencing January 1, 2001.

In December 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued Statement of Position (SOP) 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." This statement provides guidance for the recording of a liability for insurance-related assessments. The statement requires that a liability be recognized in certain defined circumstances. This statement was effective for the year commencing January 1, 1999 and has been adopted herein. SOP 97-3 did not have a material impact on AIG's results of operations, financial condition or liquidity.

In October 1998, AcSEC issued SOP 98-7, "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk." This statement identifies several methods of deposit accounting and provides guidance on the application of each method. This statement classifies insurance and reinsurance contracts for which the deposit method is appropriate as contracts that (i) transfer only significant timing risk, (ii) transfer only significant underwriting risk, (iii) transfer neither significant timing nor underwriting risk, and (iv) have an indeterminate risk. AIG believes that the impact of this statement on its results of operations, financial condition or liquidity will not be significant. This statement is effective for the year commencing January 1, 2000. Restatement of previously issued financial statements is not permitted.

#### YEAR 2000 ISSUES

Any statements contained herein that are not historical facts, or that might be considered an opinion or projection, whether expressed or implied, are meant as, and should be considered, forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on assumptions and opinions concerning a variety of known

and unknown risks, including those risks related to the Year 2000 issue. If any assumptions or opinions prove incorrect, any forward-looking statements made on that basis may also prove materially incorrect.

The Year 2000 issue arises from computer programs being written using two digits rather than four digits to define the applicable year. This could result in a failure of the information technology systems (IT systems) and other equipment containing imbedded technology (non-IT systems) in the year 2000, causing disruption of operations of AIG, its lessees, vendors, or business partners.

AIG has developed a plan to address the Year 2000 issue as it affects AIG's internal IT and non-IT systems, and to assess Year 2000 issues relating to third parties with whom AIG has critical relationships.

36

38

The plan for addressing internal systems includes an assessment of internal IT and non-IT systems and equipment affected by the Year 2000 issue; definition of strategies to address affected systems and equipment; remediation of identified affected systems and equipment; and internal certification that each internal system is Year 2000 compliant. AIG has remediated, tested and returned to production substantially all of its internal IT systems. Internal non-IT systems have been substantially remediated or replaced and subsequently tested for compliance.

AIG has also initiated formal communications with respect to the Year 2000 issue to those third parties which have significant interaction with AIG. Currently, AIG is unable to ascertain whether all such third parties will successfully address the Year 2000 issue, particularly those third parties outside the United States where it is believed that remediation efforts relating to the Year 2000 issue may be less advanced. While AIG expects to have no interruption of operations as a result of its internal IT and non-IT systems, significant uncertainties remain about the effect on AIG of third parties who are not Year 2000 compliant. AIG will continue to monitor third party Year 2000 issue readiness to determine whether additional or alternative measures may be necessary. In order to limit potential business interruptions caused by third parties who may not be Year 2000 compliant, AIG identified and prioritized all critical business activities and third party relationships, such as banks, vendors, brokers and municipalities. AIG has contacted these parties to obtain information concerning the status of their compliance and is assessing such information. Contingency plans have been developed which may include establishing another source, providing assistance to the party or instituting manual processes on a temporary basis. Contingency plans are being reviewed and approved by senior management of AIG. There can be no assurance that unresolved Year 2000 issues of third parties will not have a material adverse impact on AIG's results of operations, financial condition or liquidity.

In addition, a comprehensive plan is under development to establish appropriate communication and command structures at all levels of management throughout the world. These plans are currently scheduled to be tested in the Fall of 1999 to insure that sufficient resources will be available for any problems that may occur.

The project continues to be monitored by an executive steering committee, AIG's internal audit group and an external consulting company that has been retained to monitor the project through completion.

The costs associated with addressing the Year 2000 issue, including developing and implementing the above stated plans and remediating affected systems and equipment, have been expensed as incurred. AIG estimates that the total costs of the Year 2000 remediation will approximate \$200 million.

#### RECENT DEVELOPMENTS

The merger of SunAmerica Inc., a leading company in the retirement savings

and asset accumulation business, with and into AIG was effective January 1, 1999. The transaction was treated as a pooling of interests for accounting purposes. AIG issued 0.855 shares in exchange for each share of SunAmerica Inc. stock outstanding at the effective time of the merger for an aggregate issuance of approximately 187.5 million shares.

PART II -- OTHER INFORMATION

ITEM 6 -- EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

See accompanying Exhibit Index.

(b) During the three months ended September 30, 1999, AIG filed a current report on Form 8-K/A on August 11, 1999, amending AIG's current report on Form 8-K, dated June 3, 1999, which reported the restated financial statements and financial statement schedules for the three years ended December 31, 1998 prepared in accordance with Regulation S-X, together with Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations, to retroactively reflect the acquisition of SunAmerica Inc. as of January 1, 1999, on a pooling of interests basis. Also included were Exhibit 12, Computation of Ratios of Earnings to Fixed Charges, and Exhibit 23, Consent of Independent Accountants.

SIGNATURES

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

AMERICAN INTERNATIONAL GROUP, INC.

-----  
(Registrant)

/s/ HOWARD I. SMITH

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Howard I. Smith  
Executive Vice President,  
Chief Financial Officer  
and Comptroller

Dated: November 12, 1999

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
-----	-----	-----
2	Plan of acquisition, reorganization, arrangement, liquidation or succession.....	None
4	Instruments defining the rights of security holders, including indentures.....	Not required to be

		filed.
10	Material contracts.....	None
11	Statement re computation of per share earnings.....	Filed herewith.
12	Statement re computation of ratios.....	Filed herewith.
15	Letter re unaudited interim financial information.....	None
18	Letter re change in accounting principles.....	None
19	Report furnished to security holders.....	None
22	Published report regarding matters submitted to vote of security holders.....	None
23	Consents of experts and counsel.....	None
24	Power of attorney.....	None
27	Financial Data Schedule.....	Provided herewith.
99	Additional exhibits.....	None

## AMERICAN INTERNATIONAL GROUP, INC.

COMPUTATION OF EARNINGS PER SHARE  
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1999 (a)	1998	1999	1998
Share information reflects an adjustment on a pro forma basis for a common stock split in the form of a 25 percent common stock dividend paid July 30, 1999.				
Numerator:				
Basic:				
Net income.....	\$3,743	\$3,162	\$1,267	\$1,076
Series E Mandatory Conversion Premium Dividend Preferred Stock.....	--	(9)	--	(3)
Net income (applicable to common stock).....	\$3,743	\$3,153	\$1,267	\$1,073
Diluted:				
Net income (applicable to common stock).....	\$3,743	\$3,162	\$1,267	\$1,076
Denominator:				
Basic:				
Average outstanding shares used in the computation of per share earnings:				
Common stock.....	1,665	1,632	1,662	1,632
Common stock in treasury.....	(117)	(111)	(114)	(111)
Common stock issued and outstanding but not vested to participants under various employee stock plans....	--	(3)	--	(2)
Average outstanding shares -- basic.....	1,548	1,518	1,548	1,519
Diluted:				
Average outstanding shares used in the computation of per share earnings:				
Common stock.....	1,665	1,632	1,662	1,632
Common stock in treasury.....	(117)	(111)	(114)	(111)
Stock options and stock purchase plan (treasury stock method).....	7	6	7	6
SunAmerica employee stock plans.....	12			
Average number of shares issuable upon conversion of Series E Mandatory Conversion Premium Dividend Preferred Stock.....				
	9	13	8	
Average number of shares issuable upon conversion of Premium Equity Redemption Cumulative Security Units...	--	14	--	13
Average number of shares issuable upon conversion of Premium Equity Redemption Cumulative Security Units...	--	5	--	5
Average outstanding shares -- diluted.....	1,567	1,555	1,568	1,553
Net income per share:				
Basic.....	\$ 2.42	\$ 2.08	\$ 0.82	\$ 0.71
Diluted.....	\$ 2.39	\$ 2.03	\$ 0.81	\$ 0.69

(a) The number of common shares outstanding as of September 30, 1999 was 1,548. The number of common shares that would have been outstanding as of September 30, 1999 assuming the exercise or issuance of all potentially dilutive common shares was 1,567.

## AMERICAN INTERNATIONAL GROUP, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES  
(IN MILLIONS, EXCEPT RATIOS)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1999	1998	1999	1998
Income before income taxes and minority interest.....	\$5,584	\$4,621	\$1,867	\$1,624
Less -- Equity income of less than 50% owned persons....	18	83	4	10
Add -- Dividends from less than 50% owned persons.....	10	19	3	2
	-----	-----	-----	-----
	5,576	4,557	1,866	1,616
Add --				
Fixed charges.....	1,686	1,571	577	500
Less --				
Capitalized interest.....	43	47	13	15
	-----	-----	-----	-----
Income before income taxes, minority interest and fixed charges.....	\$7,219	\$6,081	\$2,430	\$2,101
	=====	=====	=====	=====
Fixed charges:				
Interest costs.....	\$1,609	\$1,505	\$ 551	\$ 478
Rent expense*.....	77	66	26	22
	-----	-----	-----	-----
Total fixed charges.....	\$1,686	\$1,571	\$ 577	\$ 500
	=====	=====	=====	=====
Ratio of earnings to fixed charges.....	4.28	3.87	4.21	4.20

-----  
\* The proportion deemed representative of the interest factor.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 6.89 and 6.12 for the third quarter and 7.00 and 6.00 for the first nine months of 1999 and 1998, respectively. As AIGFP will continue to be a subsidiary, AIG expects that these ratios will continue to be lower than they would be if the fixed charges and operating results of AIGFP were not included therein.

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<F1>Amount represents income before income taxes and minority interest.

<F2>Earnings per share information reflects a common stock split in the form of  
a 25

percent common stock dividend paid July 30, 1999. Prior period financial  
data schedules have not been restated for this stock split.

</FN>

