

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 JUNE 30, 1995 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 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
INCORPORATION 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 June 30, 1995 316,129,242. (Adjusting on a pro forma basis, common shares outstanding would have been 474,193,863 after reflecting a common stock split in the form of a 50 percent common stock dividend paid July 28, 1995.)

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

	JUNE 30, 1995	DECEMBER 31, 1994
	----- (UNAUDITED)	-----
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds held to maturity, at amortized cost (market value: 1995 -- \$14,509,700; 1994 -- \$13,109,700).....	\$ 13,925,300	\$ 13,041,807
Bonds available for sale, at market value (amortized cost: 1995 -- \$25,014,400; 1994 -- \$22,207,300).....	25,922,891	21,812,600
Bonds trading securities, at market value (cost: 1995 -- \$365,700; 1994 -- \$172,000).....	369,261	163,956
Preferred stocks, at amortized cost (market value: 1995 -- \$550,800; 1994 -- \$424,800).....	443,708	412,503
Equity securities:		
Common stocks (cost: 1995 -- \$4,815,600; 1994 -- \$4,607,800).....	5,200,609	5,002,668
Non-redeemable preferred stocks (cost: 1995 -- \$85,300; 1994 -- \$85,900).....	86,065	96,503
Mortgage loans on real estate, policy and collateral loans -- net.....	7,031,943	5,353,074
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1995 -- \$1,082,400; 1994 -- \$959,100).....	12,699,360	10,723,527
Securities available for sale, at market value (cost: 1995 -- \$4,091,300; 1994 -- \$3,794,100).....	4,087,537	3,796,792
Trading securities, at market value.....	3,322,257	2,483,637
Spot commodities, at market value.....	1,191,821	916,833
Unrealized gain on interest rate and currency swaps, options and forward transactions.....	7,115,557	4,650,743
Trade receivables.....	2,851,780	2,629,734
Securities purchased under agreements to resell, at contract value.....	1,232,616	1,209,403
Other invested assets.....	2,166,426	1,953,015
Short-term investments, at cost which approximates market value.....	2,286,470	2,467,453
Cash.....	66,007	76,237
	-----	-----
Total investments and cash.....	89,999,608	76,790,485
Investment income due and accrued.....	1,062,338	927,951
Premiums and insurance balances receivable -- net.....	9,930,490	8,802,207
Reinsurance assets.....	16,812,539	16,289,607
Deferred policy acquisition costs.....	5,760,760	5,132,245
Investments in partially-owned companies.....	740,136	645,167
Real estate and other fixed assets, net of accumulated depreciation (1995 -- \$1,245,500; 1994 -- \$1,129,500).....	1,930,793	1,865,244
Separate and variable accounts.....	2,399,071	2,297,605
Other assets.....	1,897,958	1,595,606
	-----	-----
Total assets.....	\$130,533,693	\$114,346,117
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	JUNE 30, 1995	DECEMBER 31, 1994
	----- (UNAUDITED)	-----
LIABILITIES:		
Reserve for losses and loss expenses.....	\$ 32,762,970	\$ 31,435,355
Reserve for unearned premiums.....	7,011,422	6,318,754
Future policy benefits for life and accident and health insurance contracts.....	20,437,106	17,432,222
Policyholders' contract deposits.....	8,477,093	6,487,426
Other policyholders' funds.....	2,172,454	1,951,358
Reserve for commissions, expenses and taxes.....	1,390,524	1,319,183
Insurance balances payable.....	2,075,938	1,462,545
Funds held by companies under reinsurance treaties.....	384,800	382,853
Income taxes payable:		
Current.....	281,376	420,569
Deferred.....	369,537	33,031
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements.....	4,767,575	5,535,318
Securities sold under agreements to repurchase, at contract value.....	2,327,872	1,342,064
Trade payables.....	2,845,739	2,108,263
Securities sold but not yet purchased, principally obligations of the U.S. Government and Government agencies, at market value.....	730,755	192,898
Spot commodities sold but not yet purchased, at market value.....	541,831	369,089
Unrealized loss on interest rate and currency swaps, options and forward transactions.....	6,298,787	3,659,450
Deposits due to banks and other depositors.....	621,065	655,973
Commercial paper.....	2,432,337	1,960,545
Notes, bonds and loans payable.....	8,357,934	7,567,046
Commercial paper.....	2,070,651	1,829,014
Notes, bonds, loans and mortgages payable.....	601,547	627,554
Separate and variable accounts.....	2,399,071	2,297,605
Other liabilities.....	2,747,641	2,336,341
	-----	-----
Total liabilities.....	112,106,025	97,724,456
	-----	-----
Preferred shareholders' equity in subsidiary company.....	300,000	200,000
CAPITAL FUNDS:		
Common stock, \$2.50 par value: 1,000,000,000 shares authorized; shares issued 1995 -- 337,390,977; 1994 -- 337,390,984.....	843,477	843,477
Additional paid-in capital.....	551,987	565,410
Unrealized appreciation of investments, net of taxes.....	751,744	184,556
Cumulative translation adjustments, net of taxes.....	(291,723)	(288,074)
Retained earnings.....	16,474,201	15,340,928
Treasury stock, at cost; 1995 -- 21,261,735; 1994 -- 21,550,358 shares of common stock.....	(202,018)	(224,636)
	-----	-----
Total capital funds.....	18,127,668	16,421,661
	-----	-----
Total liabilities and capital funds.....	\$130,533,693	\$114,346,117
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	1995	1994	1995	1994
General insurance operations:				
Net premiums written.....	\$6,024,227	\$5,500,895	\$3,145,232	\$2,879,590
Change in unearned premium reserve.....	(421,585)	(467,491)	(306,438)	(302,539)
Net premiums earned.....	5,602,642	5,033,404	2,838,794	2,577,051
Net investment income.....	757,808	705,894	378,143	351,765
Realized capital gains.....	47,556	48,488	23,146	28,394
	6,408,006	5,787,786	3,240,083	2,957,210
Losses and loss expenses incurred.....	4,308,515	4,000,258	2,138,305	2,022,791
Underwriting expenses.....	1,128,399	1,010,420	600,580	526,866
	5,436,914	5,010,678	2,738,885	2,549,657
Operating income.....	971,092	777,108	501,198	407,553
Life insurance operations:				
Premium income.....	3,837,151	3,171,655	2,047,402	1,676,556
Net investment income.....	1,059,569	835,255	557,129	427,259
Realized capital gains (losses).....	1,748	32,719	(1,183)	3,979
	4,898,468	4,039,629	2,603,348	2,107,794
Death and other benefits.....	1,573,237	1,243,068	855,500	666,267
Increase in future policy benefits.....	1,753,386	1,478,014	909,446	765,561
Acquisition and insurance expenses.....	1,074,170	878,162	577,196	458,702
	4,400,793	3,599,244	2,342,142	1,890,530
Operating income.....	497,675	440,385	261,206	217,264
Agency and service fee operating income...	31,966	29,170	15,406	13,595
Financial services operating income.....	193,485	214,143	117,948	117,045
Equity in income of minority-owned insurance operations.....	39,119	22,021	21,430	14,749
Other realized capital gains (losses)....	(14,304)	(19,687)	(6,570)	(9,482)
Minority interest.....	(17,508)	(10,813)	(8,136)	(5,267)
Other income (deductions) -- net	(36,436)	(33,224)	(23,187)	(14,764)
Income before income taxes.....	1,665,089	1,419,103	879,295	740,693
Income taxes (benefits) -- Current.....	475,956	426,362	298,060	207,393
-- Deferred.....	(16,808)	(62,571)	(52,550)	(16,394)
	459,148	363,791	245,510	190,999
Net income.....	\$1,205,941	\$1,055,312	\$ 633,785	\$ 549,694
Earnings per common share (a):				
Net income.....	\$ 2.54	\$ 2.22	\$ 1.34	\$ 1.16
Cash dividends per common share.....	\$ 0.153	\$ 0.133	\$ 0.077	\$ 0.067
Average shares outstanding (a).....	473,933	475,544	474,016	474,846

(a) Share information reflects a common stock split in the form of a 50 percent common stock dividend paid July 28, 1995.

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
 CONSOLIDATED STATEMENT OF CASH FLOWS
 (DOLLARS IN THOUSANDS)
 (UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1995	1994
Cash Flows From Operating Activities:		
Net income.....	\$ 1,205,941	\$1,055,312
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.....	4,535,030	3,073,203
Premiums and insurance balances receivable and payable -- net.....	(514,890)	(566,047)
Reinsurance assets.....	(522,932)	(336,898)
Deferred policy acquisition costs.....	(628,515)	(478,609)
Investment income due and accrued.....	(134,387)	(60,197)
Funds held under reinsurance treaties.....	1,947	(36,474)
Other policyholders' funds.....	221,096	103,967
Current and deferred income taxes -- net.....	(156,001)	(84,929)
Reserve for commissions, expenses and taxes.....	71,341	220,258
Other assets and liabilities -- net.....	108,948	(10,383)
Trade receivables and payables -- net.....	515,430	408,611
Trading securities, at market value.....	(838,620)	508,118
Spot commodities, at market value.....	(274,988)	(420,544)
Net unrealized gain on interest rate and currency swaps, options and forward transactions.....	174,523	(290,045)
Securities purchased under agreements to resell.....	(23,213)	(14,398)
Securities sold under agreements to repurchase.....	985,808	(595,303)
Securities sold but not yet purchased.....	537,857	150,510
Spot commodities sold but not yet purchased, at market value.....	172,742	136,630
Realized capital gains.....	(35,000)	(61,520)
Equity in income of partially-owned companies and other invested assets.....	(53,296)	(31,350)
Depreciation expenses, principally flight equipment.....	350,844	263,063
Change in cumulative translation adjustments.....	45,451	52,625
Other -- net.....	(46,474)	18,126
Total Adjustments.....	4,492,701	1,948,414
Net cash provided by operating activities.....	5,698,642	3,003,726

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS -- (CONTINUED)
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,	
	1995	1994
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed.....	387,974	307,992
Cost of bonds, at market sold.....	4,829,308	4,304,361
Cost of bonds, at market matured or redeemed.....	1,302,178	641,095
Cost of equity securities sold.....	1,363,587	1,304,979
Realized capital gains.....	35,000	61,520
Purchases of fixed maturities.....	(10,401,337)	(7,690,165)
Purchases of equity securities.....	(1,578,128)	(1,843,779)
Mortgage, policy and collateral loans granted.....	(2,135,487)	(1,464,294)
Repayments of mortgage, policy and collateral loans.....	388,030	359,786
Sales of securities available for sale.....	1,519,889	3,058,704
Maturities of securities available for sale.....	131,595	391,970
Purchases of securities available for sale.....	(1,949,525)	(2,494,442)
Sales of flight equipment.....	268,405	141,370
Purchases of flight equipment.....	(2,398,067)	(1,706,412)
Net additions to real estate and other fixed assets.....	(197,988)	(177,459)
Sales or distributions of other invested assets.....	166,667	69,837
Investments in other invested assets.....	(299,113)	(250,345)
Change in short-term investments.....	180,983	464,227
Investments in partially-owned companies.....	(20,752)	(35,454)
Net cash used in investing activities.....	(8,406,781)	(4,556,509)
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits.....	1,989,667	1,263,678
Change in deposits due to banks and other depositors.....	(34,908)	130,952
Change in commercial paper.....	713,429	598,948
Proceeds from notes, bonds, loans and mortgages payable.....	2,738,973	1,964,549
Repayments on notes, bonds, loans and mortgages payable.....	(1,978,036)	(976,507)
Proceeds from guaranteed investment agreements.....	1,210,364	910,524
Maturities of guaranteed investment agreements.....	(1,978,107)	(2,232,543)
Proceeds from subsidiary company preferred stock issued.....	98,476	--
Proceeds from common stock issued.....	11,886	6,974
Cash dividends to shareholders.....	(72,668)	(63,407)
Acquisition of treasury stock.....	(1,167)	(109,335)
Net cash provided by financing activities.....	2,697,909	1,493,833
Change in cash.....	(10,230)	(58,950)
Cash at beginning of period.....	76,237	157,481
Cash at end of period.....	\$ 66,007	\$ 98,531

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1995

- a) 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.
- b) Earnings per share of American International Group, Inc. (AIG) are based on the weighted average number of common shares outstanding during the period, retroactively adjusted to reflect a common stock split in the form of a 50 percent common stock dividend paid July 28, 1995. The effect of potentially dilutive securities is not significant. Following are the net income per share figures, before and after adjustment for the stock split:

	SIX MONTHS		SECOND QUARTER	
	1995	1994	1995	1994
Pre-split.....	\$ 3.82	\$ 3.33	\$ 2.01	\$ 1.74
Post-split.....	\$ 2.54	\$ 2.22	\$ 1.34	\$ 1.16

Cash dividends per common share reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 28, 1995. Following are the dividend per share figures, before and after adjustment for the stock split:

	SIX MONTHS		SECOND QUARTER	
	1995	1994	1995	1994
Pre-split.....	\$0.230	\$0.200	\$0.115	\$0.100
Post-split.....	\$0.153	\$0.133	\$0.077	\$0.067

- c) Supplemental cash flow information for the six month periods ended June 30, 1995 and 1994 is as follows:

	1995	1994
	(IN THOUSANDS)	
Income taxes paid.....	\$616,500	\$442,600
Interest paid.....	\$651,000	\$496,000

- d) For further information, refer to the Form 10-K filing of AIG for the year ended December 31, 1994.

AMERICAN INTERNATIONAL GROUP, INC.

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

OPERATIONAL REVIEW

General Insurance Operations

General insurance operations for the six month periods ending June 30, 1995 and 1994 were as follows:

(in thousands)

	1995	1994
Net premiums written:		
Domestic	\$3,949,886	\$3,743,207
Foreign	2,074,341	1,757,688
Total	\$6,024,227	\$5,500,895
Net premiums earned:		
Domestic	\$3,632,375	\$3,408,428
Foreign	1,970,267	1,624,976
Total	\$5,602,642	\$5,033,404
Adjusted underwriting profit (loss):		
Domestic	\$ (11,996)	\$ (80,256)
Foreign	177,724	102,982
Total	\$ 165,728	\$ 22,726
Net investment income:		
Domestic	\$ 611,132	\$ 569,370
Foreign	146,676	136,524
Total	\$ 757,808	\$ 705,894
Operating income before realized capital gains:		
Domestic	\$ 599,136	\$ 489,114
Foreign	324,400	239,506
Total	\$ 923,536	\$ 728,620
Realized capital gains	47,556	48,488
Operating income	\$ 971,092	\$ 777,108

During the first six months of 1995, the net premiums written and the net premiums earned in AIG's general insurance operations increased 9.5 percent and 11.3 percent, respectively, from those of 1994.

The growth in net premiums written in the first six months of 1995 over the same period of 1994 resulted from a combination of several factors. Domestically, AIG continued to achieve general price increases in certain domestic commercial property and specialty casualty markets, as well as growth in personal lines. Overseas, growth was achieved through price and volume increases. Foreign general insurance operations produced 34.4 percent of the general insurance net premiums written in this period of 1995 and 32.0 percent in the same period of 1994.

During the first six months of 1995, the U.S. dollar declined in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, the translation of foreign net premiums written into U.S. dollars for the purposes of consolidation caused the increase in total net premiums written to be approximately three percentage points greater than it would have been if translated utilizing exchange rates prevailing in the first six months of 1994.

Net premiums written are initially deferred and earned based upon the terms of the underlying policies. The net unearned premium reserve constitutes the 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.

The statutory general insurance ratios for the six month periods ended June 30, 1995 and 1994 were as follows:

	1995	1994

Domestic:		
Loss Ratio	86.67	88.51
Expense Ratio	14.32	14.40

Combined Ratio	100.99	102.91

Foreign:		
Loss Ratio	58.90	60.51
Expense Ratio	31.91	32.46

Combined Ratio	90.81	92.97

Consolidated:		
Loss Ratio	76.90	79.47
Expense Ratio	20.38	20.17

Combined Ratio	97.28	99.64

AIG's results reflect the net impact with respect to incurred losses of catastrophes approximating \$55 million in each of 1995 and 1994. During the first six months of 1995, AIG's gross incurred losses from catastrophes approximated \$115 million. The Kobe Japan earthquake which struck in early 1995 resulted in gross and net incurred losses to AIG of approximately \$73 million and \$30 million, respectively. A substantial portion of the remaining balances resulted from storms which struck the midwestern and southern states.

The Northridge earthquake which struck the Los Angeles area of California in January 1994, resulted in gross and net incurred losses to AIG of approximately \$174 million and \$55 million, respectively. AIG did not record any catastrophe losses in the second quarter of 1994.

If these catastrophes were excluded from each six months period's losses incurred, the pro forma consolidated statutory general insurance ratios would be as follows:

	1995	1994
Loss Ratio	75.92	78.38
Expense Ratio	20.38	20.17
Combined Ratio	96.30	98.55

The maintenance of the pro forma statutory combined ratio in each period at a level below 100 is a result of the profitability of AIG's foreign general insurance operations and AIG's emphasis on maintaining its disciplined underwriting within the continued overall competitiveness of the domestic market environment as well as AIG's expense control.

Adjusted underwriting profit or loss (operating income less net investment income and realized capital gains) represents statutory underwriting profit or loss adjusted primarily for changes in deferred acquisition costs. The adjusted underwriting profit in the first six months of 1995 was \$165.7 million compared to an adjusted underwriting profit of \$22.7 million recorded in the same period of 1994. This improvement is a result of growth in AIG's foreign general insurance operations and a domestic strategy implemented several years ago. That is, AIG withdrew from certain classes of domestic business, primarily agency lines and certain segments of workers' compensation business. At that time, AIG had determined that the returns on capital or equity allocated to such classes were deemed unacceptable. AIG's objective continues to be disciplined underwriting, especially in the domestic primary casualty market, and 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 six months of 1995 increased 7.4 percent when compared to the same period of 1994. The growth in net investment income was primarily attributable to new cash flow for investment. The new cash flow was generated from general insurance operating net 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 \$47.6 million in the first six months of 1995, and \$48.5 million in the same period of 1994. 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 and trading fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first six months of 1995 increased 25.0 percent when compared to the same period of 1994. The contribution of general insurance operating income to income before income taxes was 58.3 percent in the first six months of 1995 compared to 54.8 percent in the same period of 1994. The growth rate and increase in the percentage contribution in the first six months of 1995 resulted from the increased adjusted underwriting profit and the growth of net investment income.

A period to period comparison of operating income may be significantly influenced by the catastrophe losses in any one year as well as the volatility from one year to the next in realized capital gains. Adjusting each year to exclude the effects of both catastrophe losses and realized capital gains, operating income would have increased by 24.9 percent in 1995.

AIG is a major purchaser of reinsurance for its general insurance operations. AIG is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance 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 which AIG desires. These reinsurance arrangements do not relieve AIG from its direct obligations to its insureds.

AIG's general reinsurance assets resulting from its reinsurance arrangements amounted to \$16.81 billion at June 30, 1995. A credit exposure exists with respect to reinsurance recoverable when under the terms of the reinsurance arrangements any reinsurer may not be able to reimburse AIG. With respect to its reinsurance relationships, AIG manages its credit

risk 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. The application of this collateral against balances due or any changes to the amount of collateral are based on the development of losses recoverable on an individual reinsurer basis. This development includes losses incurred but not reported (IBNR). At December 31, 1994, approximately 59 percent of reinsurance recoverable was from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances are collateralized. The remaining 41 percent of the reinsurance recoverable was from authorized reinsurers and over 90 percent of such balances were from reinsurers rated A- (excellent) or better, as rated by A.M. Best. Through June 30, 1995, these distribution percentages have not significantly changed. The A.M. Best rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness.

AIG's provision for estimated unrecoverable reinsurance has not significantly changed from December 31, 1994. AIG has been largely successful in its prior recovery efforts and has 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, whether a reinsurer 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 June 30, 1995, the consolidated general reinsurance assets of \$16.81 billion include reinsurance recoverables for (i) paid losses and loss expenses of \$1.44 billion and (ii) the ceded reserve for losses and loss expenses, including losses and loss expenses incurred but not reported (ceded reserves) of \$13.57 billion. The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments therefrom are reflected in income currently. It is AIG's belief that the ceded reserves at June 30, 1995 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 June 30, 1995, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$32.76 billion, an increase of \$1.33 billion or 4.2 percent over the prior year end. General insurance net loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses, reduced by reinsurance recoverable net of an allowance for unrecoverable reinsurance and minor amounts of discounting related to certain workers' compensation claims. The net loss reserves increased \$777.9 million to \$19.20 billion or 4.2 percent over the prior year end. 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 June 30, 1995. 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.

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; the other being 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. 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. For the majority of long tail casualty lines, net loss trend factors approximating 10 percent were employed. 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 the 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 indemnity claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter collectively referred to as environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites pollution impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims.

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, judicial interpretations which broaden the intent of the policies and scope of coverage and the increasing number of new claims. The case law that has emerged can be characterized as still being in its infancy and the likelihood of any firm direction in the near future is very small. 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 expected in 1995 dramatically changes, thereby reducing or increasing litigation and cleanup costs.

In the interim, AIG and other industry members have and will continue to litigate the broadening 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. 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 changes in Superfund and waste dump site coverage issues. Additional liabilities could emerge for amounts in excess of the current reserves held. Although this emergence cannot now be rea-

sonably estimated, it could have a material adverse impact on AIG's future operating results. The reserves carried for these claims at June 30, 1995 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.

AIG's estimated gross and net IBNR with respect to asbestos and environmental claims were \$190 million and \$50 million at June 30, 1995 and \$150 million and \$30 million at December 31, 1994.

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at June 30, 1995 and 1994 was as follows:

(in millions)

	1995		1994	
	GROSS	NET	Gross	Net
Asbestos:				
Reserve for losses and loss expenses at beginning of period	\$ 686.0	\$130.2	\$ 656.0	\$116.7
Losses and loss expenses incurred	15.9	7.9	20.7	11.7
Losses and loss expenses paid	(62.1)	(15.1)	(51.0)	(14.9)
Reserve for losses and loss expenses at end of period	\$ 639.8	\$123.0	\$ 625.7	\$113.5
Environmental:				
Reserve for losses and loss expenses at beginning of period	\$ 728.1	\$200.1	\$ 684.8	\$191.5
Losses and loss expenses incurred	190.0	57.6	53.6	40.6
Losses and loss expenses paid	(79.6)	(30.2)	(83.8)	(33.0)
Reserve for losses and loss expenses at end of period	\$ 838.5	\$227.5	\$ 654.6	\$199.1
Combined:				
Reserve for losses and loss expenses at beginning of period	\$1,414.1	\$330.3	\$1,340.8	\$308.2
Losses and loss expenses incurred	205.9	59.0	74.3	52.3
Losses and loss expenses paid	(141.7)	(38.8)	(134.8)	(47.9)
Reserve for losses and loss expenses at end of period	\$1,478.3	\$350.5	\$1,280.3	\$312.6

A summary of asbestos and environmental claims count activity for the six month periods ended June 30, 1995 and 1994 was as follows:

	1995			1994		
	ASBESTOS	ENVIRONMENTAL	COMBINED	Asbestos	Environmental	Combined
Claims at beginning of period	5,947	16,223	22,170	5,522	16,661	22,183
Claims during period:						
Opened	781	2,157	2,938	722	1,743	2,465
Settled	(80)	(304)	(384)	(48)	(266)	(314)

Dismissed or otherwise resolved	(373)	(1,067)	(1,440)	(638)	(1,912)	(2,550)
Claims at end of period	6,275	17,009	23,284	5,558	16,226	21,784

The average cost per claim settled, dismissed or otherwise resolved for the six month periods ended June 30, 1995 and 1994 was as follows:

	1995		1994	
	GROSS	NET	Gross	Net
Asbestos	\$137,100	\$19,000	\$74,300	\$21,700
Environmental	58,100	22,000	38,500	15,200
Combined	77,700	21,300	47,100	16,700

Recently, an insurance rating agency 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. 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 respective 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. In addition to the study published by that insurance rating agency, another published study projected significantly lower ultimate costs for toxic waste cleanups for the insurance industry.

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.

Accordingly, AIG's annualized survival ratios for involuntary asbestos and environmental claims, separately and combined, were estimated as follows for the six month periods ended June 30, 1995 and 1994:

	1995		1994	
	GROSS	NET	Gross	Net
Involuntary survival ratios:				
Asbestos	5.2	4.1	6.1	3.8
Environmental	12.8	8.8	9.8	6.4
Combined	8.2	8.2	7.8	5.3

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 1994 were \$48.2 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 1995. Also, AIG is 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

Life insurance operations for the six months ended June 30, 1995 and 1994 were as follows:

(in thousands)

	1995	1994

Premium income:		
Domestic	\$ 245,653	\$ 187,189
Foreign	3,591,498	2,984,466

Total	\$ 3,837,151	\$ 3,171,655

Net investment income:		
Domestic	\$ 394,157	\$ 284,056
Foreign	665,412	551,199

Total	\$ 1,059,569	\$ 835,255

Operating income before realized capital gains:		
Domestic	\$ 26,070	\$ 17,383
Foreign	469,857	390,283

Total	\$ 495,927	\$ 407,666
Realized capital gains	1,748	32,719

Operating income	\$ 497,675	\$ 440,385

Life insurance in-force:		
Domestic	\$ 51,210,304	\$ 35,734,985
Foreign	363,054,434	262,534,038

Total	\$414,264,738	\$298,269,023

AIG's life insurance operations continued to show growth as a result of overseas operations, particularly in Asia. AIG's life premium income in the first six months of 1995 increased 21.0 percent over the same period in 1994. Foreign life operations produced 93.6 percent and 94.1 percent of the life premium income in 1995 and 1994, respectively.

As previously discussed, the U.S. dollar declined in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, the translation of foreign life premium income into U.S. dollars for purposes of consolidation caused the increase in total premium income to be approximately five percentage points greater than it would have been if translated utilizing exchange rates prevailing in the first six months of 1994.

Life insurance net investment income increased 26.9 percent in the first six months of 1995 over the same period in 1994. The growth in net investment income was primarily attributable to new cash flow for investment. The new cash flow was generated from life insurance operating net cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

The growth in the premium income of the domestic life segment primarily resulted from the sale of a terminal funded pension plan annuity and to a lesser extent the renewal of risk bearing premium related to corporate-owned life insurance products. Additionally, the interest income earned on the policy loans associated with the life products caused domestic investment income to increase significantly.

The traditional life products, such as whole and term life and endowments, were the major contributors to the growth in foreign premium income and investment income, particularly in Asia, and continue to be the primary source of growth in the life segment. A mixture of traditional, accident and health and financial products are being sold in Japan.

Life insurance realized capital gains were \$1.7 million in the first six months of 1995 and \$32.7 million in the same period of 1994. These realized gains 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 and redemptions of fixed maturities.

Life insurance operating income in the first six months of 1995 increased 13.0 percent to \$497.7 million from \$440.4 million in the same period of 1994. Excluding realized capital gains from life insurance operating income, the percent increase would be 21.7 percent in 1995. The contribution of life insurance operating income to income before income taxes amounted to 29.9 percent in 1995 compared to 31.0 percent in 1994.

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.

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 \$1.5 million of coverage by using yearly renewable term reinsurance. The life insurance operations have not entered into assumption reinsurance transactions or surplus relief transactions during the twelve month and six month

periods ended December 31, 1994 and June 30, 1995, respectively.

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, 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 such 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. At December 31, 1994, the average duration of the Japanese investment portfolio was 5.0 years, while the related Japanese policy liabilities were estimated to be 11.5 years. These durations have not significantly changed during 1995. To maintain an adequate yield to manage the interest required over the duration of the liabilities, constant management focus is required to reinvest the proceeds of the maturing securities without sacrificing investment quality. To the extent permitted under local regulation and to manage more closely both duration and the required yield, AIG may invest in qualified longer-term securities outside Japan. 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, the asset-liability management process is appropriately functioning as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

AIG uses asset-liability management as a 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 an anticipated interest rate change or other economic changes.

Agency and Service Fee Operations

Agency and service fee operating income in the six months ended June 30, 1995 and 1994 was \$32.0 million and \$29.2 million, respectively. This was an increase of 9.6 percent. The increase in 1995 was due to increased commission revenue in certain of AIG's managing general agencies. Agency and service fee operating income contributed 1.9 percent to AIG's income before income taxes in 1995 compared to 2.1 percent in 1994.

Financial Services Operations

Financial services operations for the six months ended June 30, 1995 and 1994 were as follows:

(in thousands)

	1995	1994
Revenues:		
International Lease Finance Corp.	\$ 656,091	\$525,939
AIG Financial Products Corp.	110,359*	150,180*
AIG Trading Group Inc.	122,388*	108,563*
Other	114,419	80,598
Total	\$1,003,257	\$865,280
Operating income:		
International Lease Finance Corp.	\$ 135,561	\$124,960
AIG Financial Products Corp.	53,768	69,974
AIG Trading Group Inc.	29,916	26,979
Other, including intercompany adjustments	(25,760)	(7,770)
Total	\$ 193,485	\$214,143

* Represents net trading revenues.

Financial services operating income decreased 9.6 percent in the first six months of 1995 over the same period in 1994. The financial services operating income in 1995 decreased as a result of the declines in the operating income of

AIG Financial Products Corp. and its subsidiaries (AIGFP) and other minor AIG financial services operations.

AIGFP participates in the derivatives dealer market conducting, as principal, an interest rate, currency and equity derivative products business which includes long-dated transactions. AIGFP also enters into guaranteed investment agreements. AIGFP's revenues and operating income in the first six months of 1995 were less than those for the same period of 1994. These declines resulted from

reduced activity in the market place. Current and past performance may not provide a basis for predicting future performance. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein.)

International Lease Finance Corporation (ILFC) primarily engages in the acquisition of new and used commercial jet aircraft and the leasing and sale of such aircraft to airlines around the world. ILFC derives a substantial portion of its revenues from its leasing operations and is also engaged in the remarketing of commercial jets to and for airlines and financial institutions. As a result of the rising interest rate environment during 1994, ILFC's weighted average interest with respect to its borrowings increased during the first six months of 1995 when compared to the same period in 1994. Although the increase in interest expense had some impact on ILFC's current lease margins, it is not anticipated that the aforementioned rise in interest rates will have any significant impact on future operating income as lease margins generally lag rising interest rates. Accordingly, ILFC has negotiated appropriate lease rates on any new contracts. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to lease or re-lease at acceptable rates or sell 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 June 30, 1995, only one of 296 aircraft owned was not leased. At August 1, 1995, this one aircraft has been contracted for sale. All other aircraft remain leased. Currently, 76 percent of the fleet is leased to foreign carriers which produces approximately the same percent of ILFC's rental revenues. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIG Trading Group Inc. and its subsidiaries (AIGTG), derive a substantial portion of their revenues from market making and trading activities, as principals, in foreign exchange, interest rates, precious and base metals, petroleum and natural gas. AIGTG's operating income increased in 1995 as a result of increased activity and presence in the natural gas sector. (See also the discussions under "Liquidity" and "Derivatives" herein.)

Financial services operating income represented 11.6 percent of AIG's income before income taxes in the first six months of 1995. This compares to 15.1 percent in 1994.

Other Operations

In the first six months of 1995, AIG's equity in income of minority-owned insurance operations was \$39.1 million compared to \$22.0 million in the same period of 1994. The equity interest in insurance companies represented 2.3 percent of income before income taxes in 1995, compared to 1.6 percent in 1994.

Other realized capital losses amounted to \$14.3 million and \$19.7 million in the first six months of 1995 and 1994, respectively.

Minority interest represents minority shareholders' equity in income of certain consolidated subsidiaries. In the first six months of 1995, minority interest amounted to \$17.5 million compared to \$10.8 million for the same period of 1994.

Other income (deductions) -- net includes AIG's equity in certain minor majority-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, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In the first six months of 1995 and 1994, net deductions amounted to \$36.4 million and \$33.2 million, respectively.

Income before income taxes amounted to \$1.67 billion during the first six months of 1995 and \$1.42 billion in 1994.

In the first six months of 1995, AIG recorded a provision for income taxes of \$459.1 million compared to the provision of \$363.8 million in the same period of 1994. These provisions represent effective tax rates of 27.6 percent in 1995 and 25.6 percent in 1994. The increase in the effective tax rate is in part due to the smaller domestic general adjusted underwriting loss relative to income before income taxes and in part to foreign capital losses which do not provide a current benefit.

Net income amounted to \$1.21 billion in the first six months of 1995 and \$1.06 billion in the same period of 1994.

CAPITAL RESOURCES

At June 30, 1995 and December 31, 1994, AIG had total capital funds of \$18.13 billion and \$16.42 billion, respectively, and total borrowings of \$18.23 billion and \$17.52 billion, respectively.

Total borrowings at June 30, 1995 and December 31, 1994 were as follows:

(in thousands)

	1995	1994

Borrowings under Obligations of Guaranteed Investment Agreements (GIA) -- AIGFP	\$ 4,767,575	\$ 5,535,318

Commercial Paper:		
Funding	1,444,187	1,211,280
ILFC	2,432,337*	1,960,545*
AICCO	626,464	617,734

Total	4,502,988	3,789,559

Medium Term Notes:		
ILFC	2,306,435*	1,999,535*
AIG	115,000	155,000

Total	2,421,435	2,154,535

Notes and Bonds Payable:		
ILFC	3,300,000*	2,950,000*
AIGFP	1,121,258	1,048,061
AIG: Lire bonds	159,067	159,067
Zero coupon notes	69,483	65,831

Total	4,649,808	4,222,959

Loans and Mortgages Payable:		
AIGTG	287,000	890,800
ILFC	1,343,241*	678,650*
AIG	257,997	247,656

Total	1,888,238	1,817,106

Total Borrowings	18,230,044	17,519,477

Borrowings not guaranteed by AIG	9,382,013	7,588,730
Matched GIA borrowings	4,767,575	5,535,318

	14,149,588	13,124,048

Remaining borrowings of AIG	\$ 4,080,456	\$ 4,395,429

*AIG does not guarantee or support these borrowings.

GIAs usually serve as the primary source of proceeds for AIGFP's investments in a diversified portfolio of securities and derivative transactions. (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 subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of commercial paper is subject to the approval of AIG's Board of Directors. ILFC, A.I. Credit Corp. (AICCO) and AIGFP issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's or ILFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. (See also the discussion under "Derivatives" herein.)

During 1994, AIG and Funding 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 represent a consolidation of domestic and international bilateral lines of credit and can be used for general corporate purposes. The Facilities also provide backup for AIG's commercial paper programs administered by Funding. At June 30, 1995, there were no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding through August 1, 1995.

At June 30, 1995, ILFC increased the aggregate principal amount outstanding of its medium term and term notes to \$5.61 billion, a net increase of \$656.9 million. At June 30, 1995, ILFC had approximately \$587 million in aggregate principal amount of debt securities registered for issuance from time to time. The funds used to purchase flight equipment are derived primarily from the proceeds of ILFC's debt financing. The primary sources for the repayment of this debt and the interest expense thereon are the lease receipts received and proceeds from the sale of flight equipment. During the first six months of 1995, ILFC obtained net financing of approximately \$1.79 billion and sold \$100 million of Market Auction Preferred Stock (MAPS) in February, 1995. These proceeds were used for the acquisition of flight equipment costing \$2.40 billion. Additional funds were provided by operating cash flow and the sale of flight equipment. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During the first six months of 1995, AIG did not issue any medium term notes and \$40.0 million of previously issued notes matured. At June 30, 1995, AIG had \$247.0 million in aggregate principal amount of debt securities registered for issuance from time to time. (See also the discussion under "Derivatives" herein.)

AIG's capital funds have increased \$1.71 billion in the first six months of 1995. Unrealized appreciation of investments, net of taxes, increased \$567.2 million, primarily resulting from the decline of domestic interest rates during the period. As a result of adopting Financial Accounting Standards No. 115 "Accounting for Certain Investments on Debt and Equity Securities" at December 31, 1993, unrealized appreciation of investments, net of taxes, is now subject to increased volatility resulting from the changes in the market value of bonds available for sale. The cumulative translation adjustment loss, net of taxes, increased \$3.6 million. Retained earnings increased \$1.13 billion, resulting from net income less dividends.

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 June 30, 1995, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. (See also the discussion under "Liquidity" herein.)

LIQUIDITY

At June 30, 1995, AIG's consolidated invested assets included approximately \$2.35 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first six months of 1995 amounted to approximately \$5.70 billion.

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.

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance pretax cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately \$5.6 billion in pretax cash flow during the first six months of 1995. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses paid. 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 \$1.7 billion in investment income cash flow during the first six months of 1995. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains.

At June 30, 1995, the combined insurance pretax cash flow coupled with the cash and short-term investments of \$2.09 billion provided the insurance operations with a significant amount of liquidity. This liquidity is available 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 and collateral and guaranteed loans. With this liquidity coupled with proceeds of approximately \$8 billion from the maturities, sales and redemptions of fixed income securities and from the sales of marketable equity securities, AIG purchased approximately \$12 billion of fixed income securities and marketable equity securities and granted \$1.7 billion of mortgage loans on real estate, policy and collateral loans during the first six months of 1995.

During 1995, AIG expects to receive approximately \$1 billion for the redemption of held to maturity municipal bonds. During the first six months of 1995, approximately \$400 million of these securities were redeemed. Through August 1, 1995 the redemptions of these bonds approximated \$800 million. Prior to redemption, the yield on these bonds approximated eight percent. The current estimate of the yield on the reinvestment of the proceeds in bonds with similar characteristics is slightly less than six percent. AIG does not anticipate that these redemptions will have a significant effect on AIG's general investment income, operations, financial condition or liquidity.

The following table is a summary of AIG's invested assets by significant segment, including

investment income due and accrued and real estate, at June 30, 1995 and December 31, 1994:

(dollars in thousands)

	JUNE 30, 1995		December 31, 1994	
	INVESTED ASSETS	PERCENT OF TOTAL	Invested Assets	Percent of Total
General insurance	\$25,448,716	27.5%	\$23,873,059	30.2%
Life insurance	32,462,475	35.2	26,690,071	33.8
Financial services	33,945,749	36.8	27,920,262	35.4
Other	479,302	0.5	491,548	0.6
Total	\$92,336,242	100.0%	\$78,974,940	100.0%

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 June 30, 1995 and December 31, 1994:

(dollars in thousands)

JUNE 30, 1995	GENERAL	LIFE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION	
					DOMESTIC	FOREIGN
FIXED MATURITIES:						
AVAILABLE FOR SALE, AT MARKET VALUE(a)	\$ 5,669,537	\$20,516,839	\$26,186,376	45.2%	31.1%	68.9%
HELD TO MATURITY, AT AMORTIZED COST(b)	14,369,008	--	14,369,008	24.8	100.0	--
EQUITY SECURITIES, AT MARKET VALUE(c)	2,772,626	2,303,596	5,076,222	8.8	28.4	71.6
MORTGAGE LOANS ON REAL ESTATE, POLICY AND COLLATERAL LOANS	39,214	6,176,956	6,216,170	10.7	49.1	50.9
SHORT-TERM INVESTMENTS, INCLUDING TIME DEPOSITS, AND CASH						
REAL ESTATE	845,978	1,244,687	2,090,665	3.6	15.4	84.6
INVESTMENT INCOME DUE AND ACCRUED	347,948	680,789	1,028,737	1.8	16.4	83.6
OTHER INVESTED ASSETS	485,052	565,923	1,050,975	1.8	55.3	44.7
TOTAL	919,353	973,685	1,893,038	3.3	47.7	52.3
TOTAL	\$25,448,716	\$32,462,475	\$57,911,191	100.0%	50.0%	50.0%

(a)Includes \$369,261 of bonds trading securities, at market value.

(b)Includes \$443,708 of preferred stock, at amortized cost.

(c)Includes \$50,799 of preferred stock, at market value.

(dollars in thousands)

December 31, 1994	General	Life	Total	Percent of Total	Percent Distribution	
					Domestic	Foreign
Fixed Maturities:						
Available for sale, at market value(a)	\$ 4,995,778	\$16,890,709	\$21,886,487	43.3%	32.2%	67.8%
Held to maturity, at amortized cost(b)	13,454,310	--	13,454,310	26.6	100.0	--
Equity securities, at market value(c)	2,799,728	2,090,421	4,890,149	9.7	30.4	69.6
Mortgage loans on real estate, policy and collateral loans	27,725	4,534,604	4,562,329	9.0	43.1	56.9
Short-term investments, including time deposits, and cash						
Real estate	954,901	1,212,933	2,167,834	4.3	27.6	72.4
Investment income due and accrued	364,115	648,938	1,013,053	2.0	18.0	82.0
Other invested assets	446,745	471,281	918,026	1.8	57.5	42.5
TOTAL	829,757	841,185	1,670,942	3.3	50.9	49.1
TOTAL	\$23,873,059	\$26,690,071	\$50,563,130	100.0%	51.7%	48.3%

(a)Includes \$163,956 of bonds trading securities, at market value.

(b)Includes \$412,503 of preferred stock, at amortized cost.

(c)Includes \$61,937 of preferred stock, at market value.

With respect to fixed maturities, AIG's strategy is to invest in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. The growth in the percentage distribution of fixed maturities available for sale, at market value is primarily attributable to the decline in domestic interest rates.

At June 30, 1995, approximately 56 percent of the fixed maturity investments were domestic securities. Approximately 40 percent of such domestic securities were rated AAA, less than two percent

were below investment grade and less than two percent were 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. However, similar credit quality rating services are not available in all overseas locations. Thus, AIG annually reviews the credit quality of the nonrated fixed income investments, including mortgages, in its foreign portfolio. AIG applies a scale similar to that of Moody's and S&P to the rating of these securities. Coupling the ratings of this internal review with those of the independent agencies indicates that approximately 42 percent of the foreign fixed income investments were rated AAA, less than one percent were deemed below investment grade and approximately 4 percent were not rated at December 31, 1994. These percent distributions have not significantly changed at June 30, 1995.

Although AIG's fixed income insurance portfolios contain only minor amounts of securities below investment grade, potentially any fixed income security is subject to downgrade for a variety of reasons subsequent to any balance sheet date. There have been no significant downgrades as at August 1, 1995.

At June 30, 1995, approximately 5 percent of the fixed maturities portfolio were Collateralized Mortgage Obligations (CMOs). All of the CMOs were investment grade and approximately 83 percent of the CMOs were backed by various U.S. government agencies. Thus, credit risk was minimal. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the accelerated prepayments of the underlying mortgages. There were no interest only or principal only CMOs.

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from currency risk and interest rate risk, AIG and its insurance subsidiaries enter into derivative transactions as end users. To date, such activities have been minor. (See also the discussion under "Derivatives" herein.)

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

Mortgage loans on real estate, policy, collateral and guaranteed loans comprised 10.7 percent of AIG's insurance invested assets at June 30, 1995. AIG's insurance holdings of real estate mortgages amounted to \$1.99 billion of which 30.8 percent was domestic. At June 30, 1995, no domestic mortgages and only a nominal amount of foreign mortgages were in default. At June 30, 1995, AIG's insurance holdings of collateral loans amounted to \$834.6 million, all of which were foreign. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. AIG's policy loans increased from \$2.23 billion at December 31, 1994 to \$3.39 billion at June 30, 1995, with approximately one billion dollars of this increase relating to the domestic corporate-owned life insurance product.

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.

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

The following table is a summary of the composition of AIG's financial services invested assets at June 30, 1995 and December 31, 1994. (See also the discussions under "Operational Review," "Capital Resources" and "Derivatives" herein.)

(dollars in thousands)

	JUNE 30, 1995		December 31, 1994	
	INVESTED ASSETS	PERCENT OF TOTAL	Invested Asset	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	\$12,699,360	37.4%	\$10,723,527	38.4%
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,115,557	21.0	4,650,743	16.7
Securities available for sale, at market value	4,087,537	12.0	3,796,792	13.6
Trading securities, at market value	3,322,257	9.8	2,483,637	8.9
Securities purchased under agreements to resell, at contract value	1,232,616	3.6	1,209,403	4.3
Trade receivables	2,851,780	8.4	2,629,734	9.4
Spot commodities, at market value	1,191,821	3.5	916,833	3.3
Other, including short-term investments	1,444,821	4.3	1,509,593	5.4
Total	\$33,945,749	100.0%	\$27,920,262	100.0%

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financing. The primary sources for the repayment of this debt and the interest expense thereon are the lease receipts received and proceeds from the sale of flight equipment. During the first six months of 1995, ILFC obtained net financing of approximately \$1.79 billion and proceeds of \$100 million from the sale of MAPS for the acquisition of flight equipment costing \$2.40 billion. Additional funds were provided by operating cash flow and the sale of flight equipment.

AIGFP's derivative transactions are carried at market value or at estimated fair value when market prices are not readily available. These values represent assessments of the present value of expected future cash flows. The recorded values of these transactions may be less than the values that might be realized, if AIGFP were to sell or close out the transactions prior to maturity. AIGFP reduces its economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, forwards and futures. AIG believes that the impact of such limited liquidity would not be significant to AIG's financial condition or its overall liquidity. The significant increase in unrealized gain on interest rate and currency swaps, options and forward transactions resulted from the decline in the U.S. dollar relative to most major foreign currencies during the first six months of 1995. (See also the discussion under "Derivatives" herein.)

Securities available for sale, at market value and securities purchased under agreements to resell are purchased with the proceeds of AIGFP's GIA financings and other long and short term borrowings. The decline in GIA borrowings since December 31, 1994, has been offset by the increase in certain other financial services liabilities such as securities sold under agreements to repurchase. (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 June 30, 1995, the average credit rating to this portfolio was AA as determined through rating agencies or internal review. There were no securities deemed below investment grade. There have been no significant downgrades through August 1, 1995. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP generally takes possession of 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 acts as principal in certain foreign exchange, interest rate, precious and base metals, petroleum and natural gas trading activities. AIGTG owns inventories in the commodities in which it trades and may reduce the exposure to market risk through the use of forwards, futures and option contracts. AIGTG uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movement in interest rates, exchange rates and commodity prices. AIGTG supports its trading activities largely through trade payables, short-term borrowings and

spot commodities sold but not yet purchased. (See also the discussions under "Capital Resources" and "Derivatives" herein.)

DERIVATIVES

Derivatives are financial arrangements among two or more parties whose returns are linked to or "derived" from some underlying stock, bond, commodity or other asset, or some 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 types of derivative arrangements in which AIG transacts are swaps, forwards, futures, options and related instruments.

The most commonly used swaps are interest rate and currency swaps. 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. A currency swap is similar but the notional amounts are different currencies which are typically exchanged at the commencement and termination of the swap based upon negotiated exchange rates.

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.

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.

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 security exchanges and settled 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 or assigned to another counterparty.

Through AIGFP and AIGTG, AIG participates in the derivatives dealer market acting primarily as principal. In these derivative operations AIG structures transactions which generally permit its counterparties to enter into transactions with respect to interest and exchange rate changes, to prices of securities and to certain commodities and financial or commodity indices. All significant derivatives activities are conducted through AIGFP and AIGTG.

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.

The senior management of AIG, with review by the Board of Directors, 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 the potential to loss, while maximizing the rewards afforded by these business opportunities. In doing so, AIG must manage a variety of exposures to risk including credit risk, market risk, liquidity risk and legal risk.

Market risk principally arises from the uncertainty that future earnings are exposed to potential changes in volatility, interest rates, foreign 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).

AIGFP does not seek to manage the market risk of each of its individual 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 market risk as deemed appropriate by AIGFP'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 nature of interest rates and 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.

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.

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 wishes to reduce.

AIGTG 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 or through on-line computer systems. In addition, these positions are reviewed by AIGTG management. Reports which present each trading book's 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, 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.

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at June 30, 1995 were as follows:

(in thousands)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	BALANCE SHEET AMOUNT
Securities available for sale, at market value	\$ 205,100	\$ 208,900	\$4,087,537
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions	7,115,557	6,298,787	--
Trading securities, at market value	--	--	3,322,257
Securities sold but not yet purchased, principally obligations of the U.S. government and government agencies, at market value	--	--	730,755
Trade receivables(a)	5,173,907	2,721,231	2,851,780
Spot commodities, at market value(b)	171,868	138,165	1,191,821
Trade payables	--	2,115,341	2,845,739
Spot commodities sold but not yet purchased, at market value	125,236	28,526	541,831

(a)The net replacement value with respect to futures and forward contracts of AIGTG at June 30, 1995 was \$2.51 billion.

(b)The net replacement value with respect to purchased option contracts of AIGTG at June 30, 1995 was \$391.8 million.

The interest rate risk on securities available for sale, at market, is managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At June 30, 1995, the unrealized gains and losses remaining after benefit of the offsets were \$7.4 million and \$11.2 million, respectively.

AIGFP carries its derivatives at market or estimated fair value, whichever is appropriate. Because of limited liquidity of these instruments, the recorded estimated fair values of these derivatives may be different than the values that might be realized if AIGFP were to sell or close out the transactions prior to maturity. (See also the discussions under "Operational Review: Financial Services" and "Liquidity" herein.)

Trading securities, at market value, and securities sold but not yet purchased are marked to market daily with the unrealized gain or loss being recognized in income at that time. These securities are held to meet the short-term risk management objectives of AIGFP.

AIGTG acts as principal in certain foreign exchange, interest rate, precious and base metals, petroleum and natural gas trading activities. AIGTG owns inventories in the commodities in which it trades. These inventories are carried at market and may be substantially hedged. AIGTG uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movements in interest rates, exchange rates and commodity prices. (See also the discussions under "Operational Review: Financial Services" and "Liquidity" herein.)

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 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 and margin agreements.

The significant majority of AIGFP's transactions are contracted and documented under master netting agreements that provide for set-off and close out netting in the event of default. Excluding regu-

lated 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 derivatives portfolio at June 30, 1995. The notional amounts used to express the extent of AIGFP's involvement in derivatives transactions represent a standard of measurement of the volume of AIGFP'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 foreign exchange forwards and exchange traded futures and options contracts are determined by the contractual agreements.

AIGFP extensively uses legally enforceable master closeout netting agreements. Thus, contracts subject to such arrangements permit AIGFP to offset its receivables from and payables to the same counterparty. As a result, the net replacement value represents the net sum of estimated positive fair values after the application of such agreements and collateral held. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at June 30, 1995 and December 31, 1994:

(in thousands)

	REMAINING LIFE				TOTAL 1995	Total 1994
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS		
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	\$11,548,000	\$62,764,000	\$34,447,000	\$ 9,621,000	\$118,380,000	\$105,581,000
Currency swaps	2,198,000	13,319,000	6,619,000	1,863,000	23,999,000	18,260,300
Equity/commodity swaps	1,689,000	529,000	702,000	1,611,000	4,531,000	817,000
Swaptions	1,122,000	5,917,000	4,148,000	1,790,000	12,977,000	9,060,000
Total	\$16,557,000	\$82,529,000	\$45,916,000	\$14,885,000	\$159,887,000	\$133,718,300
Futures, options and forward contracts:						
Exchange traded futures and options contracts contractual amount*						
	\$22,120,277	--	--	--	\$ 22,120,277	\$ 13,182,900
Over the counter forward contracts contractual amount						
	\$ 2,759,000	\$ 78,000	--	--	\$ 2,837,000	\$ 2,048,700

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

At June 30, 1995, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE		
	SWAPS AND SWAPTIONS	FUTURES, OPTIONS AND FORWARD CONTRACTS	TOTAL
Counterparty credit quality:			
AAA	\$1,645,526	\$ 43,870	\$1,689,396
AA	2,240,975	45,811	2,286,786
A	1,652,720	712	1,653,432
BBB	1,421,841	--	1,421,841
Below investment grade	30,754	--	30,754
Not externally rated -- exchanges	--	33,348	33,348
Total	\$6,991,816	\$123,741	\$7,115,557

At June 30, 1995, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE		
	SWAPS AND SWAPTIONS	FUTURES, OPTIONS AND FORWARD CONTRACTS	TOTAL
Non-U.S. banks	\$3,091,811	\$ 16,472	\$3,108,283
Insured municipalities	637,381	--	637,381
U.S. industrials	601,800	--	601,800
Governmental	836,160	--	836,160
Non-U.S. financial service companies	92,939	--	92,939
Non-U.S. industrials	655,466	133	655,599
Special purpose	67,589	--	67,589
U.S. banks	229,532	33,097	262,629
U.S. financial service companies	520,108	40,691	560,799
Suprationals	259,030	--	259,030
Exchanges	--	33,348	33,348
Total	\$6,991,816	\$123,741	\$7,115,557

The following tables provide the notional and contractual amounts of AIGTG's derivatives portfolio at June 30, 1995. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the June 30, 1995 balances based upon the expected timing of the future cash flows.

The notional amounts used to express the extent of AIGTG's involvement in derivatives transactions represent a standard of measurement of the volume of AIGTG's swaps business. Notional amount is not a quantification of the market or credit risks of the positions and is not necessarily 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 foreign exchange forwards and exchange traded futures and options contracts are determined by the contractual agreements.

The gross replacement values presented represent the sum of the estimated fair values of all of AIGTG's derivatives contracts at June 30, 1995. 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 closeout netting agreements and collateral held. The net replacement value most closely represents the net credit risk to AIGTG or the maximum amount exposed to potential loss.

The following tables present AIGTG's derivatives portfolio and associated credit exposure, if applicable, by maturity and type of derivative at June 30, 1995 and December 31, 1994:

(in thousands)

	REMAINING LIFE				TOTAL 1995	Total 1994
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS		
Futures and forward contracts and interest swaps:						
Exchange traded futures contracts contractual amount(a)	\$ 30,836,839	\$ 3,697,885	\$ 90,063	\$ --	\$ 34,624,787	\$ 21,504,155
Over the counter forward contracts contractual amount(b)	\$222,765,049	\$13,550,864	\$2,205,869	\$509,400	\$239,031,182	\$191,178,023
Futures and forward contracts and interest swaps:						
Credit exposure:						
Gross replacement value	\$ 4,440,968	\$ 614,565	\$ 99,676	\$ 18,698	\$ 5,173,907	\$ 3,531,000
Master netting arrangements	(2,149,060)	(357,370)	(69,685)	(10,190)	(2,586,305)	(1,577,407)
Collateral	(77,445)	--	--	--	(77,445)	(82,747)
Net replacement value(c)	\$ 2,214,463	\$ 257,195	\$ 29,991	\$ 8,508	\$ 2,510,157	\$ 1,870,846

(a) Exchange traded futures are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled.

(b) Includes interest rate swaps with notional amounts of approximately \$4.27 billion and \$549.0 million at June 30, 1995 and December 31, 1994, respectively.

(c) The net replacement values with respect to futures and forward contracts are presented as a component of trade receivables in the accompanying balance sheet.

(in thousands)

	REMAINING LIFE				TOTAL 1995	Total 1994
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS		
Option contracts:						
Contractual amounts for purchased options:						
Exchange traded(a)	\$ 1,779,911	\$ 174,529	--	--	\$ 1,954,440	\$ 1,410,501
Over the counter	20,553,404	2,491,913	--	--	23,045,317	13,826,578
Total	\$ 22,333,315	\$ 2,666,442	--	--	\$ 24,999,757	\$ 15,237,079
Credit exposure for purchased options:						
Gross replacement value	\$ 475,207	\$ 122,874	\$ 3,050	--	\$ 601,131	\$ 369,499
Master netting arrangements	(152,376)	(56,559)	--	--	(208,935)	(71,773)
Collateral	(425)	--	--	--	(425)	(22,594)
Net replacement value(b)	\$ 322,406	\$ 66,315	\$ 3,050	--	\$ 391,771	\$ 275,132
Contractual amounts for sold options(c)	\$ 22,491,913	\$ 2,709,999	--	--	\$ 25,201,912	\$ 14,157,868

(a) Exchange traded options are not deemed to have significant credit exposure as the exchanges guarantee that every option will be properly settled.

(b) The net replacement value with respect to purchased options is presented as a component of spot commodities, at market value in the accompanying balance sheet.

(c) Options obligate AIGTG to buy or sell the underlying item if the option purchaser chooses to exercise. The amounts do not represent credit exposures.

At June 30, 1995, the counterparty credit quality by derivative product with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE		
	FUTURES AND FORWARD CONTRACTS AND INTEREST RATE SWAPS	PURCHASED OPTIONS	TOTAL
Counterparty credit quality:			
AAA	\$ 242,138	\$ 52,262	\$ 294,400
AA	961,136	159,558	1,120,694
A	581,557	81,442	662,999
BBB	76,109	4,626	80,735
Below investment grade	28,654	5,384	34,038
Not externally rated, including exchange traded futures and options	620,563	88,499	709,062
Total	\$ 2,510,157	\$ 391,771	\$2,901,928

At June 30, 1995, the counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE		
	FUTURES AND FORWARD CONTRACTS AND INTEREST RATE SWAPS	PURCHASED OPTIONS	TOTAL
Non-U.S. banks	\$ 876,311	\$ 175,477	\$1,051,788
U.S. industrials	331,879	12,492	344,371
Governmental	187,768	23,861	211,629
Non-U.S. financial service companies	49,200	16,677	65,877
Non-U.S. industrials	164,002	58,819	222,821
U.S. banks	391,164	40,083	431,247
U.S. financial service companies	210,233	38,197	248,430
Exchanges	299,600	26,165	325,765
Total	\$ 2,510,157	\$ 391,771	\$2,901,928

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 insurance investment operations; to date, such activities have been minor.

AIG, through its Foreign Exchange Operating Committee, evaluates its worldwide consolidated 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 purchased 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 the cumulative translation adjustment account in capital funds. AIG's largest currency net investments have had historically stable exchange rates with respect to the U.S. dollar.

Management of AIG's liquidity profile is designed to ensure that even under adverse conditions AIG is able to raise funds at the most economical cost to fund maturing liabilities and capital and liquidity requirements of its subsidiaries. Sources of funds considered in meeting these objectives include guaranteed investment agreements, issuance of long and short-term debt, maturities and sales of securities available for sale, securities sold under repurchase agreements, trade payables, securities and spot commodities sold, not yet purchased, issu-

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

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.

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.

Over the counter derivatives dealers have drafted a code of conduct to provide standards for their industry. The alternative to self-regulation is federal regulation. AIG supports self-regulation and expects to adhere to promulgated standards.

RECENT DEVELOPMENTS

In May 1995, the Board of Directors of AIG declared a common stock split in the form of a 50 percent common stock dividend which was paid July 28, 1995 to shareholders of record on June 30, 1995. A quarterly dividend of 8.5 cents per share was declared on the common stock, payable September 22, 1995 to shareholders of record on September 8, 1995.

For the six month periods ended June 30, 1995 and 1994, the earnings per common share on net income prior to the common stock split in the form of a 50 percent common stock dividend were \$3.82 and \$3.33, respectively. Earnings per common share on net income after providing for the effect of the common stock split in the form of a 50 percent common stock dividend were \$2.54 and \$2.22, respectively.

In 1989, the National Association of Insurance Commissioners (NAIC) adopted the "NAIC Solvency Policing Agenda for 1990". Included in this agenda was the development of Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. AIG believes that the development of RBC standards is a positive step for the insurance industry but further believes the standards in their present form may lead to an inefficient deployment of industry capital. As experience is gained with the application of RBC standards, it is likely that adjustments to the formula will be made.

At December 31, 1994, the adjusted capital of each of AIG's four domestic life companies exceeded each of their RBC standards by considerable margins. There has been no significant change during the first six months of 1995.

RBC standards for property and casualty insurers were finalized in principle in December 1993 and were effective with the 1994 statutory financial statements. At December 31, 1994, the adjusted capital of each of AIG's domestic general companies exceeded each of their RBC standards by considerable margins. Additionally, no AIG company is on any regulatory or similar "watch list". There has been no significant change during the first six months of 1995.

ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of" (FASB 121). This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and an impairment loss must be recognized.

FASB 121 is effective for AIG commencing January 1, 1996. AIG does not anticipate adopting FASB 121 before that date. AIG believes that the adoption of this statement will have an immaterial impact on the results of operations, financial condition and liquidity.

PART II -- OTHER INFORMATION

ITEM #4 -- SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareholders held on May 24, 1995, the shareholders:

(a) elected sixteen directors as follows:

NOMINEE	SHARES FOR	SHARES WITHHELD
M. Bernard Aidinoff.....	281,731,089	3,208,433
Lloyd M. Bentsen.....	283,853,293	1,086,229
Marshall A. Cohen.....	284,025,162	914,360
Barber B. Conable, Jr.....	284,014,711	924,811
Martin Feldstein.....	284,031,225	908,297
Houghton Freeman.....	283,625,429	1,314,093
Leslie L. Gonda.....	284,005,609	933,913
Maurice R. Greenberg.....	283,602,546	1,336,976
Carla A. Hills.....	281,753,470	3,186,052
Frank J. Hoenemeyer.....	284,013,384	926,138
John J. Howell.....	284,005,863	933,659
Edward E. Matthews.....	284,016,473	923,049
Dean P. Phypers.....	284,045,568	893,954
John J. Roberts.....	283,591,163	1,348,359
Ernest E. Stempel.....	283,585,078	1,354,444
Thomas R. Tizzio.....	283,620,633	1,318,889

- (b) approved, by a vote of 268,573,834 shares to 15,034,426 shares, with 1,331,262 abstentions, a proposal to amend the Restated Certificate of Incorporation to increase the authorized number of shares of Common Stock from 500,000,000 shares to 1,000,000,000 shares;
- (c) approved, by a vote of 284,234,340 shares to 260,772 shares with 444,410 abstentions, a proposal to select Coopers & Lybrand L.L.P. as independent accountants for 1995;
- (d) rejected, by a vote of 43,224,942 shares for and 221,519,449 shares against, with 6,105,035 shares abstaining and 14,090,096 shares not voting, a shareholder proposal requesting AIG to change the composition of the Nominating Committee; and
- (e) rejected, by a vote of 14,602,410 shares for and 245,331,905 shares against, with 10,915,111 shares abstaining and 14,090,096 shares not voting, a shareholder proposal requesting AIG to initiate a study relating to investment in tobacco companies.

PART II -- OTHER INFORMATION

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

(a) Exhibits

See accompanying Exhibit Index.

(b) There have been no reports on Form 8-K filed during the quarter ended June 30, 1995.

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/s HOWARD I. SMITH

Howard I. Smith
Executive Vice President and
Comptroller
(Chief Accounting Officer)

Dated: August 11, 1995

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 THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	1995	1994	1995	1994
Average outstanding shares used in the computation of per share earnings:				
Common stock(a).....	506,086	506,086	506,086	506,086
Common stock in treasury(a).....	(32,153)	(30,542)	(32,070)	(31,240)
	473,933	475,544	474,016	474,846
	=====	=====	=====	=====
Net income (applicable to common stock).....	\$1,205,941	\$1,055,312	\$633,785	\$549,694
	=====	=====	=====	=====
Net income per share.....	\$ 2.54	\$ 2.22	\$ 1.34	\$ 1.16
	=====	=====	=====	=====

(a) Adjusted for a common stock split in the form of a 50 percent common stock dividend paid July 28, 1995.
The effects of all other common stock equivalents are not significant.

AMERICAN INTERNATIONAL GROUP, INC.

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	1995	1994	1995	1994
Income before income taxes.....	\$1,665,089	\$1,419,103	\$ 879,295	\$ 740,693
Less -- Equity income of less than 50% owned persons.....	41,042	20,730	22,741	12,322
Add -- Dividends from less than 50% owned persons.....	2,940	2,743	1,791	1,772
	1,626,987	1,401,116	858,345	730,143
Add -- Fixed charges.....	780,720	704,956	411,357	346,265
Less -- Capitalized interest.....	27,490	22,272	13,578	10,927
Income before income taxes and fixed charges.....	\$2,380,217	\$2,083,800	\$1,256,124	\$1,065,481
Fixed charges:				
Interest costs.....	\$ 740,880	\$ 671,540	\$ 391,437	\$ 329,557
Rent expense *.....	39,840	33,416	19,920	16,708
Total fixed charges.....	\$ 780,720	\$ 704,956	\$ 411,357	\$ 346,265
Ratio of earnings to fixed charges.....	3.05	2.96	3.05	3.08

* 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 4.74 and 5.59 for the second quarter and 4.66 and 5.61 for the first six months of 1995 and 1994, 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.

6-MOS
DEC-31-1995
JAN-01-1995
JUN-30-1995
1
25,922,891
13,925,300
14,509,700
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2.54
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