UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-Q

[ X ] 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, 2002 Commission File Number 1-8787

# AMERICAN INTERNATIONAL GROUP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware<br>(State or other jurisdiction of incorporation or organization) | 13-2592361<br>(I.R.S. Employer Identification Number) |
| 70 Pine Street, New York, New York<br>(Address of principal executive offices) | 10270<br>(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 [ X ] NO [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2002: 2,610,692,135.

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AMERICAN INTERNATIONAL GROUP, INC.

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

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| ASSETS: | | |
| Investments, financial services assets and cash: | | |
| Fixed maturities: | | |
| Bonds available for sale, at market value (amortized cost: 2002 — $213,569; 2001 — $196,111) | **$217,587** | $199,774 |
| Bond trading securities, at market value (cost: 2002 — $971; 2001 — $844) | **963** | 842 |
| Equity securities: | | |
| Common stocks (cost: 2002 — $7,363; 2001 — $6,963) | **6,624** | 6,188 |
| Non-redeemable preferred stocks (cost: 2002 — $1,788; 2001 — $1,840) | **1,635** | 1,749 |
| Mortgage loans on real estate, net of allowance (2002 — $105; 2001 — $114) | **11,163** | 10,774 |
| Policy loans | **5,970** | 5,786 |
| Collateral and guaranteed loans, net of allowance (2002 — $25; 2001 — $23) | **1,569** | 1,532 |
| Financial services assets: | | |
| Flight equipment primarily under operating leases, net of accumulated depreciation (2002 — $3,948; 2001 — $3,492) | **25,592** | 22,710 |
| Securities available for sale, at market value (cost: 2002 — $16,025; 2001 — $17,793) | **16,030** | 17,801 |
| Trading securities, at market value | **6,643** | 5,733 |
| Spot commodities, at market value | **408** | 352 |
| Unrealized gain on interest rate and currency swaps, options and forward transactions | **11,775** | 11,493 |
| Trading assets | **5,306** | 6,234 |
| Securities purchased under agreements to resell, at contract value | **22,049** | 21,681 |
| Finance receivables, net of allowance (2002 — $470; 2001 — $532) | **13,955** | 13,955 |
| Other invested assets | **26,140** | 22,704 |
| Short-term investments, at cost (approximates market value) | **12,475** | 7,392 |
| Cash | **730** | 698 |
| Total investments, financial services assets and cash | **386,614** | 357,398 |
| Investment income due and accrued | **3,958** | 3,682 |
| Premiums and insurance balances receivable, net of allowance (2002 — $261; 2001 — $208) | **13,091** | 11,647 |
| Reinsurance assets, net of allowance | **29,939** | 28,758 |
| Deferred policy acquisition costs | **19,104** | 17,443 |
| Investments in partially-owned companies | **978** | 902 |
| Real estate and other fixed assets, net of accumulated depreciation (2002 — $3,559; 2001 — $3,532) | **4,908** | 4,833 |
| Separate and variable accounts | **49,477** | 51,954 |
| Goodwill | **6,205** | 6,102 |
| Other assets | **10,120** | 10,263 |
| Total assets | **$524,394** | $492,982 |

***See Accompanying Notes to Financial Statements.***

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**AMERICAN INTERNATIONAL GROUP, INC.**

**CONSOLIDATED BALANCE SHEET — (continued)**

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

| | June 30, 2002 | December 31, 2001 |
|---|---|---|
| LIABILITIES: | | |
| Reserve for losses and loss expenses | **$ 45,659** | $ 44,792 |
| Reserve for unearned premiums | **15,519** | 13,148 |
| Future policy benefits for life and accident and health insurance contracts | **68,514** | 64,998 |
| Policyholders' contract deposits | **132,722** | 119,402 |
| Other policyholders' funds | **7,215** | 7,611 |
| Reserve for commissions, expenses and taxes | **3,473** | 3,381 |
| Insurance balances payable | **3,560** | 3,207 |
| Funds held by companies under reinsurance treaties | **3,023** | 2,685 |
| Income taxes payable: | | |
| Current | **283** | 405 |
| Deferred | **3,365** | 2,881 |
| Financial services liabilities: | | |
| Borrowings under obligations of guaranteed investment agreements | **15,577** | 16,392 |
| Securities sold under agreements to repurchase, at contract value | **10,774** | 11,818 |
| Trading liabilities | **4,479** | 4,372 |
| Securities and spot commodities sold but not yet purchased, at market value | **7,708** | 8,331 |
| Unrealized loss on interest rate and currency swaps, options and forward transactions | **9,385** | 8,813 |
| Trust deposits and deposits due to banks and other depositors | **2,409** | 2,290 |
| Commercial paper | **7,494** | 8,416 |
| Notes, bonds and loans payable | **37,573** | 33,643 |
| Commercial paper | **4,008** | 3,476 |
| Notes, bonds, loans and mortgages payable | **4,213** | 3,804 |
| Separate and variable accounts | **49,477** | 51,954 |
| Minority interest | **1,566** | 1,509 |
| Other liabilities | **29,291** | 21,302 |
| Total liabilities | **467,287** | 438,630 |
| Preferred shareholders' equity in subsidiary companies | **2,144** | 2,202 |
| CAPITAL FUNDS: | | |
| Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2002 — 2,751,327,476; 2001 — 2,750,237,554 | **6,878** | 6,876 |
| Additional paid-in capital | **670** | 669 |
| Retained earnings | **50,779** | 47,218 |
| Accumulated other comprehensive income (loss) | **(2,064)** | (1,725) |
| Treasury stock, at cost; 2002 — 140,635,341; 2001 — 134,805,555 shares of common stock | **(1,300)** | (888) |
| Total capital funds | **54,963** | 52,150 |
| Total liabilities, preferred shareholders' equity in subsidiary companies and capital funds | **$524,394** | $492,982 |

***See Accompanying Notes to Financial Statements.***

AMERICAN INTERNATIONAL GROUP, INC.

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

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| General insurance operations: | | | | |
| Net premiums written | **$13,117** | $ 9,920 | **$6,783** | $5,055 |
| Change in unearned premium reserve | **(1,751)** | (456) | **(924)** | (313) |
| Net premiums earned | **11,366** | 9,464 | **5,859** | 4,742 |
| Net investment income | **1,425** | 1,423 | **680** | 707 |
| Realized capital gains (losses) | **(282)** | (58) | **(160)** | (37) |
| | **12,509** | 10,829 | **6,379** | 5,412 |
| Losses and loss expenses incurred | **8,483** | 7,091 | **4,340** | 3,519 |
| Underwriting expenses | **2,157** | 1,877 | **1,103** | 983 |
| | **10,640** | 8,968 | **5,443** | 4,502 |
| Operating income | **1,869** | 1,861 | **936** | 910 |
| Life insurance operations: | | | | |
| Premium income | **9,943** | 9,164 | **5,160** | 4,795 |
| Net investment income | **5,949** | 5,430 | **3,046** | 2,741 |
| Realized capital gains (losses) | **(339)** | (21) | **(310)** | (3) |
| | **15,553** | 14,573 | **7,896** | 7,533 |
| Death and other benefits | **5,184** | 4,689 | **2,659** | 2,628 |
| Increase in future policy benefits | **5,118** | 4,762 | **2,619** | 2,213 |
| Acquisition and insurance expenses | **2,707** | 2,701 | **1,401** | 1,408 |
| | **13,009** | 12,152 | **6,679** | 6,249 |
| Operating income | **2,544** | 2,421 | **1,217** | 1,284 |
| Financial services operating income | **1,016** | 916 | **542** | 486 |
| Retirement savings & asset management operating income | **580** | 553 | **280** | 283 |
| Other realized capital gains (losses) | **(240)** | (356) | **(159)** | (309) |
| Other income (deductions) — net | **(43)** | 64 | **(49)** | 5 |
| Acquisition, restructuring and related charges | **—** | (654) | **—** | (654) |
| Income before income taxes, minority interest and cumulative effect of accounting changes | **5,726** | 4,805 | **2,767** | 2,005 |
| Income taxes — Current | **1,056** | 775 | **428** | 304 |
| — Deferred | **708** | 596 | **444** | 241 |
| | **1,764** | 1,371 | **872** | 545 |
| Income before minority interest and cumulative effect of accounting changes | **3,962** | 3,434 | **1,895** | 1,460 |
| Minority interest | **(181)** | (209) | **(94)** | (96) |
| Income before cumulative effect of accounting changes | **3,781** | 3,225 | **1,801** | 1,364 |
| Cumulative effect of accounting changes, net of tax | **—** | (55) | **—** | (49) |
| Net income | **$ 3,781** | $ 3,170 | **$1,801** | $1,315 |
| Earnings per common share: | | | | |
| Basic | | | | |
| Income before cumulative effect of accounting changes | **$ 1.45** | $ 1.23 | **$ 0.69** | $ 0.52 |
| Cumulative effect of accounting changes | **—** | (0.02) | **—** | (0.02) |

| | | | | |
|---|---|---|---|---|
| Net income | **$ 1.45** | $ 1.21 | **$ 0.69** | $ 0.50 |
| Diluted | | | | |
| Income before cumulative effect of accounting changes | **$ 1.43** | $ 1.22 | **$ 0.68** | $ 0.52 |
| Cumulative effect of accounting changes | **—** | (0.02) | **—** | (0.02) |
| Net income | **$ 1.43** | $ 1.20 | **$ 0.68** | $ 0.50 |
| Cash dividends per common share | **$ 0.084** | $ 0.074 | **$0.042** | $0.037 |
| Average shares outstanding: | | | | |
| Basic | **2,614** | 2,622 | **2,613** | 2,621 |
| Diluted | **2,639** | 2,651 | **2,640** | 2,651 |

***See Accompanying Notes to Financial Statements.***

AMERICAN INTERNATIONAL GROUP, INC.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2002** | **2001** |
| Cash Flows From Operating Activities: | | |
| Net Income | **$ 3,781** | $ 3,170 |
| 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 | **6,797** | 3,231 |
| Premiums and insurance balances receivable and payable — net | **(1,091)** | 367 |
| Reinsurance assets | **(1,181)** | (997) |
| Deferred policy acquisition costs | **(1,661)** | (619) |
| Investment income due and accrued | **(276)** | (3) |
| Funds held under reinsurance treaties | **338** | 416 |
| Other policyholders’ funds | **(396)** | 13 |
| Current and deferred income taxes — net | **585** | 557 |
| Reserve for commissions, expenses and taxes | **92** | 325 |
| Other assets and liabilities — net | **289** | 436 |
| Trading assets and liabilities — net | **1,035** | 29 |
| Trading securities, at market value | **(910)** | 824 |
| Spot commodities, at market value | **(56)** | 47 |
| Net unrealized gain on interest rate and currency swaps, options and forward transactions | **290** | (1,144) |
| Securities purchased under agreements to resell | **(368)** | (2,709) |
| Securities sold under agreements to repurchase | **(1,044)** | (572) |
| Securities and spot commodities sold but not yet purchased, at market value | **(623)** | (1,127) |
| Realized capital (gains) losses | **861** | 435 |
| Equity in income of partially-owned companies and other invested assets | **(230)** | (291) |
| Depreciation expenses, principally flight equipment | **799** | 631 |
| Change in cumulative translation adjustments | **(340)** | (311) |
| Provision for finance receivable losses | **180** | 158 |
| Other — net | **(425)** | (548) |
| Total Adjustments | **2,665** | (852) |
| Net cash provided by operating activities | **$ 6,446** | $ 2,318 |

***See Accompanying Notes to Financial Statements.***

**AMERICAN INTERNATIONAL GROUP, INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS — (Continued)**

**(in millions)**
**(unaudited)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2002** | **2001** |
| Cash Flows From Investing Activities: | | |
| Cost of bonds, at market sold | **$ 41,249** | $ 32,009 |
| Cost of bonds, at market matured or redeemed | **6,503** | 3,282 |
| Cost of equity securities sold | **3,003** | 2,897 |
| Realized capital gains (losses) | **(861)** | (435) |
| Purchases of fixed maturities | **(65,182)** | (45,966) |
| Purchases of equity securities | **(3,343)** | (2,905) |
| Mortgage, policy and collateral loans granted | **(1,327)** | (891) |
| Repayments of mortgage, policy and collateral loans | **705** | 879 |
| Sales of securities available for sale | **1,972** | 1,825 |
| Maturities of securities available for sale | **2,187** | 1,002 |
| Purchases of securities available for sale | **(2,364)** | (5,180) |
| Sales of flight equipment | **40** | 68 |
| Purchases of flight equipment | **(3,379)** | (2,804) |
| Net additions to real estate and other fixed assets | **(406)** | (271) |
| Sales or distributions of other invested assets | **3,949** | 3,061 |
| Investments in other invested assets | **(4,865)** | (3,229) |
| Change in short-term investments | **18** | (4,828) |
| Investments in partially-owned companies | **2** | (110) |
| Finance receivables originations and purchases | **(4,769)** | (4,478) |
| Finance receivables principal payments received | **4,589** | 4,092 |
| Other — net | **—** | (106) |
| Net cash used in investing activities | **(22,279)** | (22,088) |
| Cash Flows From Financing Activities: | | |
| Change in policyholders' contract deposits | **13,320** | 6,129 |
| Change in trust deposits and deposits due to banks and other depositors | **119** | 284 |
| Change in commercial paper | **(390)** | 5,254 |
| Proceeds from notes, bonds, loans and mortgages payable | **11,430** | 12,821 |
| Repayments on notes, bonds, loans and mortgages payable | **(7,107)** | (5,192) |
| Proceeds from guaranteed investment agreements | **4,541** | 9,201 |
| Maturities of guaranteed investment agreements | **(5,356)** | (7,819) |
| Redemption of subsidiary company preferred stock | **(50)** | (185) |
| Proceeds from common stock issued | **129** | 49 |
| Cash dividends to shareholders | **(221)** | (413) |
| Acquisition of treasury stock | **(556)** | (286) |
| Other — net | **6** | (51) |
| Net cash provided by financing activities | **15,865** | 19,792 |
| Change in cash | **32** | 22 |
| Cash at beginning of period | **698** | 522 |
| Cash at end of period | **$ 730** | $ 544 |

***See Accompanying Notes to Financial Statements.***

AMERICAN INTERNATIONAL GROUP, INC.

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

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Net income | **$3,781** | $3,170 | **$1,801** | $1,315 |
| Other comprehensive income: | | | | |
| Unrealized (depreciation) appreciation of investments — net of reclassification adjustments | **(71)** | 788 | **1,334** | (988) |
| Deferred income tax benefit (expense) on changes | **73** | (231) | **(448)** | 317 |
| Foreign currency translation adjustments[(a)] | **(347)** | (313) | **(71)** | (215) |
| Applicable income tax benefit on changes | **52** | 68 | **23** | 46 |
| Net derivative gains (losses) arising from cash flow hedging activities | **(42)** | (135) | **(138)** | 45 |
| Deferred income tax benefit (expense) on changes | **26** | (14) | **64** | (22) |
| Retirement plan liabilities adjustment, net of tax | **(30)** | — | **—** | — |
| Cumulative effect of accounting change, net of tax[(b)] | **—** | 150 | **—** | — |
| Cumulative effect of accounting change, net of tax[(c)] | **—** | 339 | **—** | — |
| Other comprehensive income | **(339)** | 652 | **764** | (817) |
| Comprehensive income | **$3,442** | $3,822 | **$2,565** | $ 498 |

(a) Includes insignificant derivative gains and losses arising from hedges of net investments in foreign operations.

(b) Consists of derivative gains and losses qualifying for cash flow hedging arising from the adoption of Statement of Financial Accounting Standards No. 133 “Accounting for Derivative Instruments and Hedging Activities” (FASB 133).

(c) Represents the unrealized appreciation arising from the transfer of the bonds held to maturity portfolio to the bonds available for sale portfolio in connection with the implementation of FASB 133.

***See Accompanying Notes to Financial Statements.***

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2002

(unaudited)

a) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated. Certain accounts have been reclassified in the 2001 financial statements to conform to their 2002 presentation. For further information, refer to the Annual Report on Form 10-K of American International Group, Inc. for the year ended December 31, 2001.

b) On August 29, 2001, American General Corporation (AGC) was acquired by AIG. In connection with the acquisition, AIG issued approximately 290 million shares of its common stock in exchange for all the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The acquisition was accounted for as a pooling of interests and all prior historical financial information presented herein has been restated to include AGC.

All of the share information included herein reflects the application of the exchange ratio to the number of shares of AGC common stock outstanding at the relevant times rather than the number of shares of AIG common stock actually issued and outstanding at such times.

The following is a reconciliation of the individual companies combined results for the first six months and second quarter of 2001:

| | Six Months Ended June 30, 2001 | | | Three Months Ended June 30, 2001 | | |
|---|---|---|---|---|---|---|
| | AIG | AGC | Total | AIG | AGC | Total |
| | | (in millions) | | | (in millions) | |
| Revenues | $24,440 | $5,506 | $29,946 | $12,437 | $2,716 | $15,153 |
| Net income (loss) | $ 3,159 | $ 11 | $ 3,170 | $ 1,627 | $ (312) | $ 1,315 |

c) Earnings per share of AIG are based on the weighted average number of common shares outstanding during the period, retroactively adjusted to reflect all stock splits.

The quarterly dividend rate per common share, commencing with the dividend payable September 20, 2002 is $0.047.

d) Cash flow information for the six month periods ended June 30, 2002 and 2001 is as follows:

| | 2002 | 2001 |
|---|---|---|
| | (in millions) | |
| Income taxes paid | **$ 940** | $ 941 |
| Interest paid | **$1,799** | $2,006 |

e) Segment Information:

The following table summarizes the operations by major operating segment for the first six months and second quarter of 2002 and 2001 (in millions):

| | Operating Segments | | | |
|---|---|---|---|---|
| | Six Months Ended June 30, | | Three Months Ended June 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| Revenues*: | | | | |
| General Insurance | **$12,509** | $10,829 | **$ 6,379** | $ 5,412 |
| Life Insurance | **15,553** | 14,573 | **7,896** | 7,533 |
| Financial Services | **3,241** | 3,095 | **1,675** | 1,580 |
| Retirement Savings & Asset Management | **1,736** | 1,805 | **871** | 937 |
| Other | **(240)** | (356) | **(159)** | (309) |
| Total | **$32,799** | $29,946 | **$16,662** | $15,153 |

| | Operating Segments | | | |
|---|---|---|---|---|
| | Six Months Ended June 30, | | Three Months Ended June 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| Operating income: | | | | |
| General Insurance | **$1,869** | $1,861 | **$ 936** | $ 910 |
| Life Insurance | **2,544** | 2,421 | **1,217** | 1,284 |
| Financial Services | **1,016** | 916 | **542** | 486 |
| Retirement Savings & Asset Management | **580** | 553 | **280** | 283 |
| Other | **(283)** | (946) | **(208)** | (958) |
| Total | **$5,726** | $4,805 | **$2,767** | $2,005 |

* Represents the sum of general net premiums earned, life premium income, net investment income, financial services commissions, transaction and other fees, retirement savings & asset management commissions and other fees, and realized capital gains (losses).

The following table summarizes AIG's general insurance operations by major reporting group for the first six months and second quarter of 2002 and 2001 (in millions):

| | General Insurance | | | |
|---|---|---|---|---|
| | Six Months Ended June 30, | | Three Months Ended June 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| Domestic Brokerage Group | **$ 6,724** | $ 5,575 | **$3,379** | $2,813 |
| Transatlantic | **1,233** | 992 | **633** | 505 |
| Personal Lines | **1,430** | 1,327 | **742** | 669 |
| Mortgage Guaranty | **328** | 305 | **163** | 159 |
| Foreign General | **2,797** | 2,618 | **1,471** | 1,260 |
| Intercompany adjustments and eliminations — net | **(3)** | 12 | **(9)** | 6 |
| Total | **$12,509** | $10,829 | **$6,379** | $5,412 |
| Operating income before realized capital gains (losses)*: | | | | |
| Domestic Brokerage Group | **$ 1,043** | $ 991 | **$ 512** | $ 500 |
| Transatlantic | **146** | 106 | **74** | 46 |
| Personal Lines | **86** | 19 | **63** | 7 |
| Mortgage Guaranty | **236** | 213 | **124** | 111 |
| Foreign General | **629** | 578 | **318** | 277 |
| Intercompany adjustments and eliminations — net | **11** | 12 | **5** | 6 |
| Total | **$ 2,151** | $ 1,919 | **$1,096** | $ 947 |

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

The following table summarizes AIG's life insurance operations by major reporting group for the first six months and second quarter of 2002 and 2001 (in millions):

| | Life Insurance | | | |
|---|---|---|---|---|
| | Six Months Ended June 30, | | Three Months Ended June 30, | |
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| American International Assurance and Nan Shan Life | **$ 5,779** | $ 5,085 | **$3,017** | $2,622 |
| ALICO and AIG Star Life | **3,564** | 2,921 | **1,806** | 1,535 |
| Domestic Life | **5,935** | 6,280 | **2,920** | 3,227 |
| Other | **275** | 287 | **153** | 149 |

| | | | | |
|---|---|---|---|---|
| Total | **$15,553** | $14,573 | **$7,896** | $7,533 |

| | Life Insurance | | | |
|---|---|---|---|---|
| | Six Months Ended June 30, | | Three Months Ended June 30, | |
| | **2002** | 2001 | **2002** | 2001 |
| Operating income before realized capital gains (losses): | | | | |
| American International Assurance and Nan Shan Life | **$ 807** | $ 779 | **$ 415** | $ 416 |
| ALICO and AIG Star Life | **704** | 455 | **391** | 245 |
| Domestic Life | **1,308** | 1,161 | **676** | 600 |
| Other | **64** | 47 | **45** | 26 |
| Total | **$2,883** | $2,442 | **$1,527** | $1,287 |

The following table summarizes AIG's financial services operations by major reporting group for the first six months and second quarter of 2002 and 2001 (in millions):

| | Financial Services | | | |
|---|---|---|---|---|
| | Six Months Ended June 30, | | Three Months Ended June 30, | |
| | **2002** | 2001 | **2002** | 2001 |
| Revenues: | | | | |
| International Lease Finance Corporation | **$1,367** | $1,278 | **$ 726** | $ 657 |
| AIG Financial Products Corp. | **538** | 519 | **266** | 271 |
| Consumer Finance | **1,227** | 1,250 | **614** | 634 |
| Other* | **109** | 48 | **69** | 18 |
| Total | **$3,241** | $3,095 | **$1,675** | $1,580 |
| Operating income: | | | | |
| International Lease Finance Corporation | **$ 381** | $ 344 | **$ 208** | $ 184 |
| AIG Financial Products Corp. | **356** | 354 | **180** | 189 |
| Consumer Finance | **265** | 233 | **141** | 127 |
| Other* | **14** | (15) | **13** | (14) |
| Total | **$1,016** | $ 916 | **$ 542** | $ 486 |

* Including AIG Trading Group Inc.

f) Computation of Earnings Per Share:

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| | (in millions, except per share amounts) | | | |
| Numerator: | | | | |
| Income before cumulative effect of accounting changes | **$3,781** | $3,225 | **$1,801** | $1,364 |
| Cumulative effect of accounting changes, net of tax | **—** | (55) | **—** | (49) |
| Net income (applicable to common stock) | **$3,781** | $3,170 | **$1,801** | $1,315 |
| Denominator: | | | | |
| Basic: | | | | |
| Average outstanding shares used in the computation of per share earnings: | | | | |
| Common stock | **2,752** | 2,789 | **2,752** | 2,789 |
| Common stock in treasury | **(138)** | (167) | **(139)** | (168) |
| Average outstanding shares — basic | **2,614** | 2,622 | **2,613** | 2,621 |
| Diluted: | | | | |
| Average outstanding shares used in the computation of per share earnings: | | | | |

| | | | | |
|---|---|---|---|---|
| Common stock | **2,752** | 2,789 | **2,752** | 2,789 |
| Common stock in treasury | **(138)** | (167) | **(139)** | (168) |
| Stock options and stock purchase plan (treasury stock method) | **25** | 29 | **27** | 30 |
| Average outstanding shares — diluted | **2,639** | 2,651 | **2,640** | 2,651 |

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (in millions, except per share amounts) | | | |
| Net income per share: | | | | |
| Basic | | | | |
| Income before cumulative effect of accounting changes | **$1.45** | $ 1.23 | **$0.69** | $ 0.52 |
| Cumulative effect of accounting changes | — | (0.02) | — | (0.02) |
| Net income | **$1.45** | $ 1.21 | **$0.69** | $ 0.50 |
| Diluted | | | | |
| Income before cumulative effect of accounting changes | **$1.43** | $ 1.22 | **$0.68** | $ 0.52 |
| Cumulative effect of accounting changes | — | (0.02) | — | (0.02) |
| Net income | **$1.43** | $ 1.20 | **$0.68** | $ 0.50 |

g) Acquisition, Restructuring and Related Charges

During the third quarter of 2001, AGC was consolidated into AIG and charges in connection with this acquisition totaled $1.36 billion for that quarter, including approximately $512 million of direct costs. Of the $512 million, approximately $305 million had been paid as of December 31, 2001 and an additional $94 million has been paid for the six months ended June 30, 2002. The balance is included in Other liabilities.

Less significant, ongoing costs with respect to the integration of operations will continue to be expensed in future periods as incurred. AIG expects that these ongoing costs will include costs for the integration of computer systems, the training and relocation of certain employees and the consolidation of facilities.

h) Starr International Company, Inc. Plan

Starr International Company, Inc. (SICO) provides a Deferred Compensation Profit Participation Plan (SICO Plan) to certain AIG employees. The SICO Plan came into being in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset consists of AIG common stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG. Participation in the SICO Plan by any person, and the amount of such participation, is at the sole discretion of SICO's Board of Directors, and none of the costs of the various benefits provided under such plan is paid by or charged to AIG. The SICO Plan provides that shares currently owned by SICO may be set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors may permit an early pay-out under certain circumstances. Prior to pay-out, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's voluntary termination of employment with AIG prior to normal retirement age. In addition, SICO's Board of Directors may elect to pay a participant cash in lieu of shares of AIG common stock. If the expenses of the SICO Plan had been reflected by AIG, the pre-tax amounts accrued would have been $25.1 million for the first six months of 2002 and $28.6 million for the same period of 2001 and $12.5 million and $14.3 million for the second quarter 2002 and 2001, respectively.

i) Commitments and Contingent Liabilities

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

*i)* Commitments to extend credit are agreements to lend subject to certain conditions. These commitments generally have fixed expiration dates or termination clauses and typically require payment of a fee. These commitments have not deviated materially from December 31, 2001 at which time they approximated $300 million. AIG uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. AIG evaluates each counterparty's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by AIG upon extension of credit, is based on management's credit evaluation of the counterparty.

*ii)* AIG and certain of its subsidiaries become parties to financial instruments with market risk resulting from both dealer and end user activities and to reduce currency, interest rate, equity and commodity exposures. To the extent those instruments are carried at their estimated fair value, the elements of currency, interest rate, equity and commodity risks are reflected in the consolidated balance sheet. Collateral is required, at the discretion of AIG, on certain transactions based on the creditworthiness of the counterparty.

*iii)* AIGFP becomes a party to derivative financial instruments in the normal course of its business and to reduce its currency, interest rate and equity exposures. Interest rate, currency and equity risks related to such instruments are reflected in the consolidated financial statements to the extent these instruments are carried at a market or a fair value, whichever is appropriate. The recorded estimated fair values of such instruments may be different than the values that might be realized if AIGFP were required to sell or close out the transactions prior to maturity.

AIGFP, in the ordinary course of its operations and as principal, structures derivative transactions to meet the needs of investors who may be seeking to hedge certain aspects of such investors' operations. AIGFP may also enter into derivative transactions for its own account. Such derivative transactions include interest rate, currency and equity swaps, swaptions and forward commitments. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. AIGFP typically becomes a principal in the exchange of interest payments between the parties and, therefore, may be exposed to loss, if counterparties default. Currency and equity swaps are similar to interest rate swaps, but involve the exchange of specific currency, equity securities, or equity indices. Also, they may involve the exchange of principal amounts at the beginning and end of the transaction. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction. At June 30, 2002, the notional principal amount of the sum of the swap pays and receives approximated $764.9 billion, primarily related to interest rate swaps of approximately $530.2 billion.

The following tables provide the contractual and notional amounts of derivatives transactions of AIGFP at June 30, 2002.

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

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

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at June 30, 2002 and December 31, 2001:

*(in millions)*

| | Remaining Life of Notional Amount* | | | | | |
|---|---|---|---|---|---|---|
| | **One Year** | **Two Through Five Years** | **Six Through Ten Years** | **After Ten Years** | **Total 2002** | **Total 2001** |
| AIGFP interest rate, currency and equity/commodity swaps and swaptions: | | | | | | |
| Notional amount: | | | | | | |
| Interest rate swaps | $133,197 | $265,475 | $119,717 | $11,857 | **$530,246** | $436,669 |
| Currency swaps | 35,222 | 80,512 | 42,670 | 6,186 | **164,590** | 139,174 |
| Swaptions and equity swaps | 23,833 | 26,263 | 14,901 | 5,105 | **70,102** | 58,491 |
| Total | $192,252 | $372,250 | $177,288 | $23,148 | **$764,938** | $634,334 |

* Notional amount is not representative of either market risk or credit risk

Futures and forward contracts are contracts for delivery of foreign currencies or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from contracted prices and the potential inability of counterparties to meet their obligations under the contracts. At June 30, 2002 the contractual amount of AIGFP's futures and forward contracts approximated $61.4 billion.

The following table presents AIGFP's futures and forward contracts portfolio by maturity and type of derivative at June 30, 2002 and December 31, 2001:

*(in millions)*

| | Remaining Life | | | | | |
|---|---|---|---|---|---|---|
| | One Year | Two Through Five Years | Six Through Ten Years | After Ten Years | Total 2002 | Total 2001 |
| Futures and forward contracts: | | | | | | |
| Exchange traded futures contracts contractual amount | $ 8,530 | $ — | $ — | $ — | **$ 8,530** | $10,036 |
| Over the counter forward contracts contractual amount | $52,233 | $398 | $205 | $ — | **$52,836** | $58,003 |

AIGFP utilizes various credit enhancements, including collateral, credit triggers and credit derivatives to reduce the credit exposure relating to these off-balance sheet financial instruments. AIGFP requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties and the transaction's size and maturity. In addition, AIGFP's derivative transactions are generally documented under ISDA Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, AIGFP is permitted to set-off its receivables from a counterparty against its payables to the same counterparty arising out of all included transactions. As a result, the net replacement value represents the net sum of estimated positive fair values after the application of such strategies, agreements and collateral held. Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all interest rate, currency, and equity swaps, swaptions and forward commitments approximated $11.28 billion at June 30, 2002 and $10.84 billion at December 31, 2001. The net replacement value for futures and forward contracts approximated $51 million at June 30, 2002 and $64 million at December 31, 2001. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

AIGFP independently evaluates the creditworthiness of its counterparties, taking into account credit ratings assigned by recognized statistical rating organizations. In addition, AIGFP's credit approval process involves pre-set counterparty, country and industry credit exposure limits and, for particularly credit intensive transactions, obtaining approval from AIG's Credit Risk Committee. The average credit rating of AIGFP's counterparties as a whole (as measured by AIGFP) is equivalent to AA. The maximum potential loss will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions.

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At June 30, 2002 and December 31, 2001, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

*(in millions)*

| | Net Replacement Value | | | |
|---|---|---|---|---|
| | Swaps and Swaptions | Futures and Forward Contracts | Total 2002 | Total 2001 |
| Counterparty credit quality: | | | | |
| AAA | $ 5,097 | $ — | **$ 5,097** | $ 4,388 |
| AA | 3,037 | 50 | **3,087** | 3,214 |
| A | 2,334 | 1 | **2,335** | 2,498 |
| BBB | 793 | — | **793** | 784 |
| Below investment grade | 14 | — | **14** | 23 |
| Total | $11,275 | $ 51 | **$11,326** | $10,907 |

At June 30, 2002 and December 31, 2001, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

*(in millions)*

| | Net Replacement Value | | | |
|---|---|---|---|---|
| | **Swaps and Swaptions** | **Futures and Forward Contracts** | **Total 2002** | Total 2001 |
| Non-U.S. banks | $ 2,291 | $ 51 | **$ 2,342** | $ 2,464 |
| Insured municipalities | 701 | — | **701** | 638 |
| U.S. industrials | 2,545 | — | **2,545** | 2,113 |
| Governmental | 457 | — | **457** | 563 |
| Non-U.S. financial service companies | 346 | — | **346** | 428 |
| Non-U.S. industrials | 1,292 | — | **1,292** | 1,289 |
| Special purpose | 2,339 | — | **2,339** | 1,851 |
| U.S. banks | 150 | — | **150** | 72 |
| U.S. financial service companies | 1,082 | — | **1,082** | 1,211 |
| Supranationals | 72 | — | **72** | 278 |
| Total | $11,275 | $ 51 | **$11,326** | $10,907 |

Securities sold, but not yet purchased represent obligations of AIGFP to deliver specified securities at their contracted prices, and thereby create a liability to repurchase the securities in the market at prevailing prices.

AIGFP monitors and controls its risk exposure on a daily basis through financial, credit and legal reporting systems and, accordingly, believes that it has in place effective procedures for evaluating and limiting the credit and market risks to which it is subject. Management is not aware of any potentially significant counterparty defaults.

Commissions, transaction and other fees for the six months ended June 30, 2002 and 2001 from AIGFP's operations were $538 million and $519 million, respectively.

*iv)* AIGTG becomes a party to derivative financial instruments in the normal course of its business and to reduce its currency, interest rate and commodity exposures.

Futures and forward contracts are contracts for delivery of foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from contracted prices and the potential inability of counterparties to meet their obligations under the contracts. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts. As a writer of options, AIGTG generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index. At June 30, 2002, the contractual amount of AIGTG's futures, forward and option contracts approximated $462.6 billion.

The following table provides the contractual and notional amounts and credit exposure, if applicable, by maturity and type of derivative of AIGTG's derivatives portfolio at June 30, 2002 and December 31, 2001. The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at June 30, 2002 and December 31, 2001. 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 values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss within a product category. At June 30, 2002, the net replacement value of AIGTG's futures, forward and option contracts and interest rate and currency swaps approximated $3.24 billion.

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*(in millions)*

| | Remaining Life | | | | | |
|---|---|---|---|---|---|---|
| | One Year | Two Through Five Years | Six Through Ten Years | After Ten Years | Total 2002 | Total 2001 |
| Contractual amount of futures, forwards and options: | | | | | | |
| Exchange traded futures and options | $ 14,267 | $ 3,142 | $ 30 | $ — | **$ 17,439** | $ 14,977 |
| Forwards | $197,836 | $14,256 | $ 1,366 | $ 36 | **$213,494** | $184,102 |
| Over the counter purchased options | $ 79,854 | $12,513 | $24,161 | $233 | **$116,761** | $138,655 |
| Over the counter sold options[(a)] | $ 77,218 | $12,723 | $24,733 | $278 | **$114,952** | $137,661 |
| Notional amount[(c)]: | | | | | | |
| Interest rate swaps and forward rate agreements | $ 15,136 | $37,701 | $ 7,713 | $161 | **$ 60,711** | $ 59,683 |
| Currency swaps | 2,240 | 5,441 | 763 | — | **8,444** | 11,092 |
| Swaptions | 2,460 | 8,689 | 1,457 | — | **12,606** | 7,280 |
| Total | $ 19,836 | $51,831 | $ 9,933 | $161 | **$ 81,761** | $ 78,055 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Credit exposure: | | | | | | |
| Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps: | | | | | | |
| Gross replacement value | $ 7,875 | $ 2,008 | $ 1,958 | $ 157 | **$11,998** | $10,074 |
| Master netting arrangements | (5,087) | (1,493) | (1,543) | (131) | **(8,254)** | (6,691) |
| Collateral | (77) | (105) | (293) | (26) | **(501)** | (330) |
| Net replacement value[(b)] | $ 2,711 | $ 410 | $ 122 | $ — | **$ 3,243** | $ 3,053 |

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

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

(c) Notional amount is not representative of either market risk or credit risk.

AIGTG independently evaluates the creditworthiness of its counterparties, taking into account credit ratings assigned by recognized statistical rating organizations. In addition, AIGTG's credit approval process involves pre-set counterparty, country and industry credit exposure limits and, for particularly credit intensive transactions, obtaining approval from AIG's Credit Risk Committee. The maximum potential loss will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions.

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At June 30, 2002 and December 31, 2001, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio were as follows:

*(in millions)*

| | Net Replacement Value | |
|---|---|---|
| | **2002** | 2001 |
| Counterparty credit quality: | | |
| AAA | **$ 624** | $ 391 |
| AA | **1,230** | 1,117 |
| A | **837** | 863 |
| BBB | **186** | 330 |
| Below investment grade | **30** | 130 |
| Not externally rated, including exchange traded futures and options* | **336** | 222 |
| Total | **$3,243** | $3,053 |
| Counterparty breakdown by industry: | | |
| Non-U.S. banks | **$ 953** | $1,151 |
| U.S. industrials | **469** | 503 |
| Governmental | **101** | 71 |
| Non-U.S. financial service companies | **215** | 187 |
| Non-U.S. industrials | **265** | 190 |
| U.S. banks | **559** | 353 |
| U.S. financial service companies | **345** | 376 |
| Exchanges* | **336** | 222 |
| Total | **$3,243** | $3,053 |

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

Spot commodities sold but not yet purchased represent obligations of AIGTG to deliver spot commodities at their contracted prices and thereby create a liability to repurchase the spot commodities in the market at prevailing prices.

AIGTG limits its risks by holding offsetting positions. In addition, AIGTG monitors and controls its risk exposures through various monitoring systems which evaluate AIGTG's market and credit risks, and through credit approvals and limits. At June 30, 2002, AIGTG did not have a significant concentration of credit risk from either an individual counterparty or group of counterparties.

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future obligations and liabilities of AIGFP and AIGTG arising from transactions entered into by AIGFP and AIGTG.

*v)* As a component of its asset and liability management strategy, AIG SunAmerica utilizes swap agreements to match more closely the cash flows of its assets to the cash flows of its liabilities. AIG SunAmerica uses these swap agreements to hedge against the risk of interest rate changes and currency fluctuations. At June 30, 2002 and December 31, 2001, AIG SunAmerica's swap agreements had an aggregate notional principal amount of $22.15 billion and $17.90 billion, respectively. These agreements mature in various years through 2031.

For investment purposes, AIG SunAmerica has entered into various total return agreements. As of June 30, 2002, there was no notional amount outstanding with respect to these agreements. AIG guarantees any payment obligations of AIG SunAmerica under such agreements.

*vi)* AGC and certain of its subsidiaries have entered into various interest rate and currency swap agreements, treasury rate lock agreements and options to enter into interest rate swap agreements. AGC uses these agreements to hedge its exposure to interest rate changes and currency rate fluctuations that are associated with investment operations and/or anticipated debt issuances. At June 30, 2002, AGC's swap agreements with respect to debt had an aggregate notional amount of $800 million, of which $400 million was with AIGFP. There were no treasury rate lock agreements outstanding at June 30, 2002. The impact of AGC's derivatives on AIG's results of operations, financial condition and liquidity was insignificant.

*vii)* At June 30, 2002, ILFC had committed to purchase 502 aircraft deliverable from 2002 through 2010 at an estimated aggregate purchase price of $29.3 billion and had options to purchase 49 aircraft deliverable from 2002 through 2008 at an estimated aggregate purchase price of $3.0 billion. ILFC will be required to find customers for any aircraft presently on order and any aircraft to be ordered, and it must arrange financing for portions of the purchase price of such equipment. As of June 30, 2002, ILFC has entered into leases for all aircraft to be delivered in 2002 and 91 percent of aircraft to be delivered in 2003.

*viii)* AIG and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. AIG does not believe that such litigation will have a material effect on its operating results and financial condition. However, the recent trend of increasing jury awards and settlements makes it somewhat more difficult to assess the ultimate outcome of such litigation.

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter collectively referred to as environmental claims) and indemnity claims asserting injuries from asbestos. Estimation of asbestos and environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1984 and prior years, cannot be estimated by conventional reserving techniques. Asbestos and environmental claims development is affected by factors such as inconsistent court resolutions, the broadening of the intent of policies and scope of coverage and increasing number of new claims. AIG and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue in the future to expand the intent of the policies and the scope of the coverage, as they have in the past, additional liabilities would emerge for amounts in excess of reserves held. This emergence cannot now be reasonably estimated, but could have a material impact on AIG's future operating results. The reserves carried for these claims as at June 30, 2002 ($2.14 billion gross; $701 million net) are believed to be adequate as these reserves are based on known facts and current law.

A summary of reserves and activity for the six months then ended June 30, 2002 and 2001, including estimates for applicable incurred but not reported losses and loss expenses, relating to asbestos and environmental claims separately, is as follows.

**(in millions)**

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Asbestos: | | | | |
| Reserve for losses and loss expenses at beginning of year | **$1,114** | **$312** | $1,100 | $ 338 |
| Losses and loss expenses incurred | **118** | **72** | 191 | 38 |
| Losses and loss expenses paid | **(82)** | **(40)** | (174) | (60) |
| Reserve for losses and loss expenses at end of period | **$1,150** | **$344** | $1,117 | $ 316 |
| Environmental: | | | | |
| Reserve for losses and loss expenses at beginning of year | **$1,115** | **$407** | $1,345 | $ 517 |
| Losses and loss expenses incurred | **(49)** | **(11)** | (30) | (40) |
| Losses and loss expenses paid | **(79)** | **(39)** | (128) | (46) |
| Reserve for losses and loss expenses at end of period | **$ 987** | **$357** | $1,187 | $ 431 |
| Combined: | | | | |
| Reserve for losses and loss expenses at beginning of year | **$2,229** | **$719** | $2,445 | $ 855 |
| Losses and loss expenses incurred | **69** | **61** | 161 | (2) |
| Losses and loss expenses paid | **(161)** | **(79)** | (302) | (106) |
| Reserve for losses and loss expenses at end of period | **$2,137** | **$701** | $2,304 | $ 747 |

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

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j) Capital Resources:

At June 30, 2002, AIG had total capital funds of $54.96 billion and total borrowings of $68.87 billion. At that date, $58.59 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Total borrowings and borrowings not guaranteed or matched at June 30, 2002 and December 31, 2001 were as follows:

*(in millions)*

| | 2002 | 2001 |
|---|---|---|
| GIAs — AIGFP | **$15,577** | $16,392 |
| Commercial Paper: | | |
| AGC | **2,044** | 2,468 |
| AGF[(a)] | **4,198** | 4,853 |
| AIG Funding, Inc. (Funding) | **1,876** | 902 |
| ILFC[(a)] | **3,246** | 3,494 |
| AIG Finance (Taiwan) Limited[(a)] | **87** | 107 |
| AIG Credit Card Company (Taiwan)[(a)] | **51** | 68 |
| Total | **11,502** | 11,892 |
| Medium Term Notes: | | |
| AGF[(a)] | **5,014** | 4,100 |
| ILFC[(a)] | **4,948** | 4,809 |
| AIG | **498** | 542 |
| Total | **10,460** | 9,451 |
| Notes and Bonds Payable: | | |
| ILFC[(a)] | **10,014** | 7,073 |
| AIGFP | **13,947** | 13,920 |
| AIG | **1,592** | 1,577 |
| AGC | **1,541** | 1,340 |
| AGF[(a)] | **1,997** | 2,201 |
| Total | **29,091** | 26,111 |
| Loans and Mortgages Payable: | | |
| ILFC[(a)(b)] | **314** | 365 |
| AIG Finance (Hong Kong) Limited[(a)] | **303** | 290 |
| CFG[(a)] | **895** | 885 |
| AIG | **723** | 345 |
| Total | **2,235** | 1,885 |
| Total Borrowings | **68,865** | 65,731 |
| Borrowings not guaranteed by AIG | **31,067** | 28,245 |
| Matched GIA borrowings | **15,577** | 16,392 |
| Matched notes and bonds payable — AIGFP | **11,947** | 12,185 |
| | **58,591** | 56,822 |
| Remaining borrowings of AIG | **$10,274** | $ 8,909 |

(a) AIG does not guarantee these borrowings.
(b) Capital lease obligations.

At June 30, 2002, the commercial paper issued and outstanding was as follows:

*(dollars in millions)*

| | Net Book Value | Unamortized Discount and accrued interest | Face Amount | Weighted Average Interest Rate | Weighted Average Maturity In Days |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Funding | $ 1,876 | $ 3 | $ 1,879 | 1.82 | 39 |
| ILFC | 3,246 | 7 | 3,253 | 1.86 | 49 |
| AGF | 4,198 | 8 | 4,206 | 1.86 | 40 |
| AGC | 2,044 | 2 | 2,046 | 1.76 | 20 |
| AIGF — Taiwan* | 87 | 1 | 88 | 3.98 | 64 |
| AIGCCC — Taiwan* | 51 | — | 51 | 3.39 | 42 |
| Total | $11,502 | $ 21 | $11,523 | — | — |

* Issued in Taiwan N.T. dollars at prevailing local interest rates.

The maturity distributions of total borrowings at June 30, 2002 and December 31, 2001 were as follows:

*(in millions)*

| | 2002 | 2001 |
|---|---|---|
| Short-term borrowings | **$20,584** | $19,336 |
| Long-term borrowings* | **48,281** | 46,395 |
| Total borrowings | **$68,865** | $65,731 |

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

During the first six months of 2002, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to $13.95 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under “Operational Review”, “Liquidity” and “Derivatives” in Management’s Discussion and Analysis.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG’s funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding’s commercial paper is subject to the approval of AIG’s Board of Directors. ILFC and A.I. Credit Corp. (AICCO) as well as AIG Credit Card Company (Taiwan) — (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited — (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, AGC and AGF have issued commercial paper for the funding of their own operations. At June 30, 2002, AIG did not guarantee or support the commercial paper of any of its subsidiaries other than Funding and AGC. In early 2001, AICCO ceased issuing commercial paper under its program and the agreement which AIG had provided supporting the commercial paper was terminated; AICCO’s funding requirements are now met through Funding’s program. (See also the discussion under “Derivatives” in Management’s Discussion and Analysis.)

AIG and Funding were parties to syndicated revolving credit facilities (collectively, the Facility) aggregating $1.5 billion. The Facility consisted of $1.0 billion in short-term revolving credit facilities and a $500 million five year revolving credit facility. The Facility could have been used for general corporate purposes and also to provide backup for AIG’s commercial paper programs administered by Funding. There were no borrowings outstanding under the Facility as of June 30, 2002. Effective July 18, 2002, the Facility was terminated and replaced with a new Facility. The new Facility aggregates to $2.75 billion, consisting of $1.375 billion in a short-term revolving credit facility and $1.375 billion in a five year revolving credit facility.

AGC and AGF were parties to unsecured committed bank credit facilities aggregating $5.2 billion to support their commercial paper borrowings. There were no borrowings under this facility as of June 30, 2002. AGF had $2.0 billion in aggregate principal amount of debt securities registered and available for issuance at June 30, 2002. AGC used the proceeds from the issuance of notes and bonds for general corporate purposes. AGF uses the proceeds from the issuance of notes and bonds for the funding of its finance receivables. As of November 2001, AIG guaranteed the notes and bonds of AGC. Effective July 18, 2002, the bank credit facilities shared by AGC and AGF aggregating $5.2 billion were terminated. On that date, new unsecured syndicated revolving credit facilities aggregating $3.0 billion were established for AGF. The facilities consist of $1.5 billion in a short-term revolving credit facility and $1.5 billion in a five year revolving credit facility, which support AGF’s commercial paper borrowings. On July 8, 2002, AGC ceased issuing commercial paper under its program. AGC’s funding requirements are now being met through Funding’s program. On August 28, 2002, AGC’s last outstanding direct commercial paper issuance will mature.

ILFC has entered into committed revolving loans and lines of credit with commercial banks aggregating $2.85 billion to support its commercial paper program. At June 30, 2002, there were no borrowings under these facilities.

At June 30, 2002, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to $14.96 billion, a net increase of $3.08 billion, and recorded a net decline in its capital lease obligations of $51 million and a net decrease in its commercial paper of $248 million. On January 28, 2002, ILFC registered $4.0 billion principal amount of debt securities for issuance from time to time. At June 30, 2002, $2.7 billion had been issued. During the second quarter of 2002, ILFC expanded its Euro Medium Term Note Program to $4.0 billion, under which $2.31 billion in notes were sold through June 30, 2002. Notes issued under this program are included in Notes and Bonds Payable in the accompanying table of borrowings.

ILFC had a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varied from 5.75 percent to 5.90 percent on these aircraft depending on the delivery date of the aircraft. At June 30, 2002, ILFC had $2.23 billion outstanding under this facility. Borrowings with respect to this facility are included in Notes and Bonds Payable in the accompanying table of borrowings.

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

AIGFP has established a Euro Medium Term Note Program under which an aggregate principal amount of up to $4.0 billion of notes may be issued. As of June 30, 2002, $1.18 billion of notes had been issued under the program, all of which are currently outstanding. Notes issued under this program are included in Notes and Bonds Payable in the accompanying table of borrowings.

During the first six months of 2002, AIG issued $4 million principal amount of medium term notes and $48 million of previously issued notes matured. At June 30, 2002, AIG had $640 million in aggregate principal amount of debt securities registered for issuance from time to time.

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

k) Accounting Standards:

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (FASB 142). As of January 1, 2002, AIG adopted FASB 142. FASB 142 requires AIG to discontinue the amortization of goodwill in its consolidated income statement. Amortization expense recorded in AIG's consolidated statement of income amounted to $76 million pre-tax for the first six months of 2001 and $40 million pre-tax for the second quarter of 2001.

FASB 142 requires goodwill to be subject to an assessment of impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. The assessment of impairment involves a two-step process prescribed in FASB 142, whereby an initial assessment for potential impairment is performed, followed by a measurement of the amount of impairment, if any. FASB 142 also requires the completion of a transitional impairment test in the year of adoption, with any identified impairments recognized as a cumulative effect of a change in accounting principles. During the second quarter, AIG completed its transitional impairment test for 2002, resulting in no impairment.

Changes in the carrying amount of goodwill are primarily caused as a result of foreign currency translation adjustments.

l) Information Provided in Connection with Outstanding Debt of AGC

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

AGC is a holding company and a wholly-owned subsidiary of AIG. At June 30, 2002, AGC had commercial paper outstanding as well as notes issued. AIG provides a full and unconditional guarantee of all outstanding debt of AGC.

**Condensed Consolidating Balance Sheet**

| June 30, 2002 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Invested assets | $ 1,471 | $ — | $388,118 | $ (3,705) | $385,884 |
| Cash | 2 | 1 | 727 | — | 730 |
| Carrying value of subsidiaries and partially owned companies, at equity | 55,173 | 12,309 | 4,723 | (71,227) | 978 |
| Other assets | 2,620 | 2,771 | 135,691 | (4,280) | 136,802 |
| Total Assets | $59,266 | $15,081 | $529,259 | $(79,212) | $524,394 |
| **Liabilities:** | | | | | |
| Insurance liabilities | $ 330 | $ — | $276,328 | $ 4 | $276,662 |
| Debt | 2,090 | 5,278 | 64,773 | (3,276) | 68,865 |
| Other liabilities | 1,883 | 1,095 | 123,004 | (4,222) | 121,760 |
| Total Liabilities | 4,303 | 6,373 | 464,105 | (7,494) | 467,287 |
| Preferred shareholders' equity in subsidiary companies | — | — | 2,544 | (400) | 2,144 |
| Total Capital Funds | 54,963 | 8,708 | 62,610 | (71,318) | 54,963 |
| Total Liabilities, Preferred Shareholders' Equity in Subsidiary Companies and Capital Funds | $59,266 | $15,081 | $529,259 | $(79,212) | $524,394 |

| December 31, 2001 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Invested assets | $ 1,405 | $ — | $358,666 | $ (3,371) | $356,700 |
| Cash | 1 | 1 | 696 | — | 698 |
| Carrying value of subsidiaries and partially owned companies, at equity | 52,117 | 12,022 | 3,509 | (66,746) | 902 |
| Other assets | 2,395 | 2,799 | 130,422 | (934) | 134,682 |
| Total Assets | $55,918 | $14,822 | $493,293 | $(71,051) | $492,982 |
| **Liabilities:** | | | | | |
| Insurance liabilities | $ 320 | $ — | $256,219 | $ — | $256,539 |
| Debt | 2,119 | 5,500 | 61,048 | (2,936) | 65,731 |
| Other liabilities | 1,329 | 1,267 | 114,656 | (892) | 116,360 |
| Total liabilities | 3,768 | 6,767 | 431,923 | (3,828) | 438,630 |
| Preferred shareholders' equity in subsidiary companies | — | — | 2,602 | (400) | 2,202 |
| Total Capital Funds | 52,150 | 8,055 | 58,768 | (66,823) | 52,150 |
| Total Liabilities, Preferred Shareholders' Equity in Subsidiary Companies and Capital Funds | $55,918 | $14,822 | $493,293 | $(71,051) | $492,982 |

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**Condensed Consolidating Statements of Income**

| Six months ended June 30, 2002 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---|---|---|---|
| General insurance operating income | $ 96 | $ — | $1,773 | $ — | $1,869 |
| Life insurance operating income | 16 | — | 2,528 | — | 2,544 |
| Financial services operating income | 177 | — | 839 | — | 1,016 |
| Retirement savings & asset management operating income | (2) | — | 582 | — | 580 |
| Equity in undistributed net income of consolidated subsidiaries | 3,205 | 365 | — | (3,570) | — |
| Other | 297 | 411 | (75) | (916) | (283) |
| Income taxes (benefits) | 8 | — | 1,756 | — | 1,764 |
| Minority interest | — | — | (181) | — | (181) |
| Cumulative effect of accounting changes | — | — | — | — | — |
| Net income | $3,781 | $776 | $3,710 | $(4,486) | $3,781 |

| Six months ended June 30, 2001 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---|---|---|---|
| General insurance operating income | $ 113 | $ — | $1,748 | $ — | $1,861 |
| Life insurance operating income | (25) | — | 2,446 | — | 2,421 |
| Financial services operating income | 185 | — | 731 | — | 916 |
| Retirement savings & asset management operating income | 9 | — | 544 | — | 553 |
| Equity in undistributed net income of consolidated subsidiaries | 2,320 | 343 | — | (2,663) | — |
| Other | 717 | (564) | (39) | (1,060) | (946) |
| Income taxes (benefits) | 133 | (281) | 1,519 | — | 1,371 |
| Minority interest | — | — | (209) | — | (209) |
| Cumulative effect of accounting changes | (16) | (49) | 10 | — | (55) |
| Net income | $3,170 | $ 11 | $3,712 | $(3,723) | $3,170 |

| Three months ended June 30, 2002 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---|---|---|---|
| General insurance operating income | $ 35 | $ — | $ 901 | $ — | $ 936 |
| Life insurance operating income | (1) | — | 1,218 | — | 1,217 |
| Financial services operating income | 100 | — | 442 | — | 542 |
| Retirement savings & asset management operating income | (1) | — | 281 | — | 280 |
| Equity in undistributed net income of consolidated subsidiaries | 1,592 | 151 | — | (1,743) | — |
| Other | 85 | 195 | (62) | (426) | (208) |
| Income taxes (benefits) | 9 | (15) | 878 | — | 872 |
| Minority interest | — | — | (94) | — | (94) |
| Cumulative effect of accounting changes | — | — | — | — | — |
| Net income | $1,801 | $361 | $1,808 | $(2,169) | $1,801 |

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**Condensed Consolidating Statements of Income (continued)**

| Three months ended June 30, 2001 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Eliminations | Consolidated AIG |
|---|---|---|---|---|---|
| General insurance operating income | $ 18 | $ — | $ 892 | $ — | $ 910 |
| Life insurance operating income | (12) | — | 1,296 | — | 1,284 |
| Financial services operating income | 97 | — | 389 | — | 486 |
| Retirement savings & asset management operating income | — | — | 283 | — | 283 |
| Equity in undistributed net income of consolidated subsidiaries | 575 | 139 | — | (714) | — |
| Other | 544 | (657) | (186) | (659) | (958) |
| Income taxes (benefits) | (93) | (255) | 893 | — | 545 |
| Minority interest | — | — | (96) | — | (96) |
| Cumulative effect of accounting changes | — | (49) | — | — | (49) |
| Net income | $1,315 | $(312) | $1,685 | $(1,373) | $1,315 |

**Condensed Consolidating Statements of Cash Flows**

| Six months ended June 30, 2002 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Consolidated AIG |
|---|---|---|---|---|
| **Net cash provided by operating activities** | $ 155 | $ 485 | $ 5,806 | $ 6,446 |
| Cash flows from investing: | | | | |
| Invested assets disposed | (215) | — | 63,571 | 63,356 |
| Invested assets acquired | (66) | — | (85,163) | (85,229) |
| Other | (19) | (220) | (167) | (406) |
| Net cash used in investing activities | (300) | (220) | (21,759) | (22,279) |
| Cash flows from financing activities: | | | | |
| Change in debts | 792 | (222) | 2,548 | 3,118 |
| Other | (646) | (43) | 13,436 | 12,747 |
| Net cash provided by (used in) financing activities | 146 | (265) | 15,984 | 15,865 |
| Change in cash | 1 | — | 31 | 32 |
| Cash at beginning of period | 1 | 1 | 696 | 698 |
| Cash at end of period | $ 2 | $ 1 | $ 727 | $ 730 |

| Six months ended June 30, 2001 (in millions) | American International Group, Inc. Guarantor | AGC Issuer | Other Subsidiaries | Consolidated AIG |
|---|---|---|---|---|
| **Net cash provided by (used in) operating activities** | $ 572 | $(528) | $ 2,274 | $ 2,318 |
| Cash flows from investing: | | | | |
| Invested assets disposed | (299) | — | 44,041 | 43,742 |
| Invested assets acquired | (82) | — | (65,371) | (65,453) |
| Other | (46) | (111) | (220) | (377) |
| Net cash used in investing activities | (427) | (111) | (21,550) | (22,088) |
| Cash flows from financing activities: | | | | |
| Change in debts | 232 | 941 | 13,092 | 14,265 |
| Other | (373) | (303) | 6,203 | 5,527 |
| Net cash provided by (used in) financing activities | (141) | 638 | 19,295 | 19,792 |
| Change in cash | 4 | (1) | 19 | 22 |
| Cash at beginning of period | 1 | 3 | 518 | 522 |
| Cash at end of period | $ 5 | $ 2 | $ 537 | $ 544 |

### Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other publicly available documents may include, and AIG's officers and representatives may from time to time make, statements which may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts but instead represent only AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside of AIG's control. These statements may address, among other things, AIG's strategy for growth, product development, regulatory approvals, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause AIG's actual results to differ, possibly materially, from those in the specific forward-looking statements are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations. AIG is not under any obligation to (and expressly disclaims any such obligations to) update or alter any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

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## Management's Discussion and Analysis of

## Financial Condition and Results of Operations

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

**Index**



**Operational Review**

**Consolidated Results**

AIG's net income in the first six months of 2002 increased 19.3 percent to $3.78 billion when compared to $3.17 billion in the same period of 2001. Excluding $425 million of acquisition, restructuring and related charges, net of tax incurred in 2001, AIG's net income in the first six months of 2002 increased 5.2 percent.

AIG's operations are conducted principally through four business segments: general insurance, life insurance, financial services and retirement savings & asset management. The following table summarizes the operations of each principal segment for the six month periods ending June 30, 2002 and 2001:

*(in millions)*

| | 2002 | 2001 |
|---|---|---|

| | | |
|---|---|---|
| Revenues: | | |
| General insurance[(a)] | **$12,509** | $10,829 |
| Life insurance[(b)] | **15,553** | 14,573 |
| Financial services[(c)] | **3,241** | 3,095 |
| Retirement savings & asset management[(d)] | **1,736** | 1,805 |
| Other | **(240)** | (356) |
| Total | **$32,799** | $29,946 |
| Operating income: | | |
| General insurance | **$ 1,869** | $ 1,861 |
| Life insurance | **2,544** | 2,421 |
| Financial services | **1,016** | 916 |
| Retirement savings & asset management | **580** | 553 |
| Other | **(283)** | (946) |
| Total | **$ 5,726** | $ 4,805 |

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

(b) Represents the sum of life premium income, net investment income and realized capital gains (losses).

(c) Represents financial services commissions, transactions and other fees.

(d) Represents retirement savings & asset management commissions and other fees.

***General Insurance:*** General insurance operating income increased 0.5 percent in the first six months of 2002 compared to the same period in 2001. Excluding realized capital losses, general insurance operating income increased 12.1 percent, reflecting strong growth in adjusted underwriting profit. The growth in investment income slowed primarily as a result of lower earnings from the private equity portfolio.

***Life Insurance:*** Life insurance operating income increased 5.1 percent in the first six months of 2002 compared to the same period in 2001. Excluding realized capital gains (losses), life insurance operating income increased 18.1 percent, reflecting operating income growth in each of AIG's principal life insurance businesses.

***Financial Services:*** Financial services operating income increased 10.8 percent in the first six months of 2002 compared to the same period in 2001, reflecting the continued growth of each of its principal operations.

***Retirement Savings & Asset Management:*** Retirement savings & asset management operating income increased 4.9 percent in the first six months of 2002 when compared to the same period in 2001. This growth was principally a result of the operations of The Variable Annuity Life Insurance Company (VALIC).

***Realized Capital Losses:*** During the first six months of 2002, AIG incurred net realized capital losses of $861 million, including $356 million from WorldCom securities.

***Capital Resources:*** At June 30, 2002, AIG had total capital funds of $54.96 billion and total borrowings of $68.87 billion. At that date, $58.59 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

During the period from January 1, 2002 through August 5, 2002, AIG repurchased in the open market 10,148,000 shares of its common stock.

***Liquidity:*** At June 30, 2002, consolidated invested assets were $393.4 billion including $13.21 billion in cash and short-term investments. Consolidated net cash provided from operating activities in the first six months of 2002 amounted to $6.45 billion.

***Outlook for the Remainder of 2002:*** Premium rates in the General Insurance business are continuing to strengthen both domestically and in key international markets, along with policy restrictions and exclusions. In the Life Insurance segment, the integration of AGC and its operations is proceeding well.

**General Insurance Operations**

AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance.

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

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

Transatlantic offers reinsurance capacity, both domestically and overseas, on treaty and facultative bases. Transatlantic structures traditional and non-traditional programs for a full range of property and casualty products with an emphasis on specialty risk.

Personal Lines engages in the mass marketing of personal lines insurance, primarily private passenger auto and homeowners and personal umbrella coverages.

Mortgage Guaranty provides guaranty insurance on conventional first mortgage loans on single family dwellings and condominiums.

AIG's Foreign General insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. The Foreign General insurance group uses various

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marketing methods to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in over 70 countries in Asia, the Pacific Rim, Europe, Africa, Middle East and Latin America. (See also Note (e) of Notes to Financial Statements.)

**General insurance operations for the six month periods ending June 30, 2002 and 2001 were as follows:**

*(in millions)*

| | 2002 | 2001 |
|---|---|---|
| Net premiums written: | | |
| DBG* | **$ 7,131** | $4,987 |
| Transatlantic | **1,156** | 907 |
| Personal Lines | **1,533** | 1,246 |
| Mortgage Guaranty | **248** | 239 |
| Foreign General | **3,049** | 2,541 |
| Total | **$13,117** | $9,920 |
| Net premiums earned: | | |
| DBG* | **$ 6,127** | $4,727 |
| Transatlantic | **1,108** | 868 |
| Personal Lines | **1,377** | 1,273 |
| Mortgage Guaranty | **247** | 240 |
| Foreign General | **2,507** | 2,356 |
| Total | **$11,366** | $9,464 |
| Adjusted underwriting profit (loss): | | |
| DBG* | **$ 219** | $ 96 |
| Transatlantic | **20** | (13) |
| Personal Lines | **25** | (38) |
| Mortgage Guaranty | **157** | 161 |
| Foreign General | **305** | 290 |
| Total | **$ 726** | $ 496 |
| Net investment income | | |
| DBG | **$ 824** | $ 895 |
| Transatlantic | **126** | 119 |
| Personal Lines | **61** | 57 |
| Mortgage Guaranty | **79** | 52 |
| Intercompany adjustments and eliminations — net | **11** | 12 |
| Foreign General | **324** | 288 |
| Total | **$ 1,425** | $1,423 |
| Operating income before realized capital gains (losses) | | |
| DBG* | **$ 1,043** | $ 991 |
| Transatlantic | **146** | 106 |
| Personal Lines | **86** | 19 |
| Mortgage Guaranty | **236** | 213 |
| Intercompany adjustments and eliminations — net | **11** | 12 |
| Foreign General | **629** | 578 |
| Total | **2,151** | 1,919 |
| Realized capital gains (losses) | **(282)** | (58) |
| Operating income | **$ 1,869** | $1,861 |

* Reflects the realignment of certain internal divisions in each year.

***General Insurance Results***

During the first six months of 2002, net premiums written and net premiums earned increased 32.2 percent and 20.1 percent, respectively, from those of 2001. During the first six months of 2002, AIG cancelled or non-renewed approximately $372 million of business worldwide that did not meet AIG's underwriting standards.

Commencing in the latter part of 1999 and continuing through 2002, the commercial property-casualty market place has experienced rate increases. Virtually all areas of DBG have experienced rate increases. Overall, DBG's net premiums written increased $2.14 billion or 43.0 percent in the first six months of 2002 over 2001.

Personal Lines' net premiums written increased 23.0 percent or $287 million in the first six months of 2002 from 2001, reflecting auto insurance rate increases in many states.

Foreign General insurance net premiums written increased 20.0 percent and net premiums earned increased 6.4 percent in the first six months of 2002 when compared to the same period of 2001. Foreign General insurance operations produced 23.2 percent of the general insurance net premiums written in the first six months of 2002 and 25.6 percent in 2001.

In comparing the average foreign currency exchange rates used to translate the results of AIG's foreign general operations during the first six months of 2002 to those average foreign currency exchange rates used to translate AIG's foreign general results during the same period of 2001, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of the preparation of the consolidated financial statements, total general insurance net premiums written were approximately 2.2 percentage points less than they would have been if translated utilizing those average foreign currency exchange rates which prevailed during that same period of 2001.

Net premiums written are initially deferred and earned based upon the terms of the underlying policies. The net unearned premium reserve constitutes deferred revenues which are generally earned ratably over the policy period. Thus, the net unearned premium reserve is not fully recognized as net premiums earned until the end of the policy period.

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

**The statutory general insurance ratios for the six months ending June 30, 2002 and 2001 were as follows:**

| | **2002** | 2001 |
|---|---|---|
| Domestic General: | | |
| Loss Ratio | **78.19** | 80.48 |
| Expense Ratio | **17.93** | 17.01 |
| Combined Ratio | **96.12** | 97.49 |
| Foreign General: | | |
| Loss Ratio | **62.08** | 58.17 |
| Expense Ratio | **27.98** | 31.78 |
| Combined Ratio | **90.06** | 89.95 |
| Consolidated: | | |
| Loss Ratio | **74.63** | 74.92 |
| Expense Ratio | **20.27** | 20.79 |
| Combined Ratio | **94.90** | 95.71 |

The **adjusted underwriting profit** was $726 million for the first six months of 2002 and $496 million for the same period of 2001. This increase resulted from premium rate increases and disciplined underwriting.

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

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

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

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

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

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

AIG did not incur any **catastrophe losses** in the first six months of 2002. AIG incurred net losses from catastrophes approximating $48 million in the first six months of 2001. AIG’s gross incurred losses from catastrophes approximated $101 million in the first six months of 2001. While AIG believes that it has taken appropriate steps to reduce the magnitude of possible future losses, the occurrence of one or more catastrophic events of unanticipated frequency or severity, such as a terrorist attack, earthquake, or hurricane, that causes insured losses could have a material adverse effect on AIG’s results of operations, liquidity or financial condition. Current techniques and models may not accurately predict in the future the probability of catastrophic events and the extent of the resulting losses. Moreover, one or more catastrophe losses could impact negatively AIG's reinsurers and result in an inability of AIG to collect reinsurance recoverables. The impact of losses caused by catastrophes can fluctuate widely from period to period, making comparisons of recurring type business more difficult. The pro forma table below excludes catastrophe losses in order to present comparable results of AIG's recurring core underwriting operations. The pro forma consolidated statutory general insurance ratios for the six months ending June 30, 2002 and 2001 would be as follows:

| | **2002** | 2001 |
|---|---|---|
| Loss Ratio | **74.63** | 74.42 |
| Expense Ratio | **20.27** | 20.79 |
| Combined Ratio | **94.90** | 95.21 |

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

**General insurance net investment income** in the first six months of 2002 increased 0.2 percent when compared to the same period of 2001. The growth in net investment income in 2002 has slowed significantly primarily as a result of lower earnings from the general insurance private equity portfolio. Also, interest income earned from the general insurance bond portfolio was impacted by lower yields as the proceeds from maturing fixed income securities are reinvested. However, the cash flow resulting from the growth in net premiums written should have positive impact on net investment income in future quarters. (See also the discussion under "Liquidity" herein.)

**General insurance realized capital losses** were $282 million and $58 million in the first six months of 2002 and 2001, respectively. These realized capital losses resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

**General insurance operating income** for the first six months of 2002 increased 0.5 percent to $1.87 billion. The contribution of general insurance operating income to income before income taxes, minority interest and cumulative effect of accounting changes was 32.6 percent during the first six months of 2002 compared to 38.7 percent in the same period of 2001.

***Reinsurance***

AIG is a major purchaser of reinsurance for its general insurance operations. AIG is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. AIG insures general risks in over 70 countries and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. These reinsurance arrangements do not relieve AIG from its direct obligations to its insureds.

**AIG held general reinsurance assets** of $28.87 billion at June 30, 2002 as a result of its reinsurance arrangements. Thus, a credit exposure existed at June 30, 2002 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2001, approximately 43 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 57 percent of the general reinsurance assets were from authorized reinsurers and over 97 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Through June 30, 2002, these distribution percentages have not changed significantly.

AIG's **allowance for estimated unrecoverable reinsurance** has not changed significantly from December 31, 2001 when AIG had allowances for unrecoverable reinsurance approximating $75 million. At June 30, 2002, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

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

At June 30, 2002, the consolidated general reinsurance assets of $28.87 billion include reinsurance recoverables for paid losses and loss expenses of $4.04 billion and $19.26 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments therefrom are reflected in income currently. It is AIG's belief that the ceded reserves at June 30, 2002 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.

***Reserves for Losses and Loss Expenses***

At June 30, 2002, general insurance reserves for losses and loss expenses (loss reserves) amounted to $45.66 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and amounts of discounting related to certain workers' compensation claims. At June 30, 2002, general insurance net loss reserves increased $505 million from prior year end to $26.40 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses at June 30, 2002. In the future, if the general insurance net loss reserves develop deficiently, as a result of a variety of factors which are increasingly difficult to quantify, such as the litigious nature of our society, the increasing size of jury awards and settlements, and the failure to make progress in tort reform, such deficiency would have an adverse impact on 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.** Such lines include excess and umbrella liability, directors and officers' liability, professional liability, medical malpractice, general liability, products' liability, and related classes. These lines account for approximately one-half of net losses and loss expenses. The other group is short tail lines of business consisting principally of property lines, personal lines and certain classes of casualty lines.

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

A variety of actuarial methods and assumptions are normally employed to estimate net losses for long tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long tail casualty lines, net loss trend factors approximated four percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms and current and future estimates of monetary inflation and social inflation. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs. Therefore, AIG’s carried net long tail loss reserves are judgmentally set as well as tested for reasonableness using the most appropriate loss trend factors for each class of business. In the evaluation of AIG’s net loss reserves, loss trend factors vary slightly, depending on the particular class and nature of the business involved. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience.

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

***Environmental Claims***

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter referred to collectively as environmental claims) and indemnity claims asserting injuries from asbestos.

The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG continues to maintain specialized toxic tort and environmental claim units, established over a decade ago, which investigate and adjust all such asbestos and environmental claims. Highly rated with respect to claim file handling and case reserving by independent sources, these units utilize a comprehensive ground up, bottom up approach to claim adjusting by thoroughly evaluating each exposure on a claim by claim basis. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites environmental impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein.

Estimation of asbestos and environmental claims loss reserves is a difficult process. These asbestos and environmental claims cannot be estimated by conventional reserving techniques as previously described. Quantitative techniques frequently have to be supplemented by subjective considerations including managerial judgment. Significant factors which affect the trends which influence the development of asbestos and environmental claims are the inconsistent court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposure for cleanup costs of hazardous waste dump sites involves issues such as allocation of responsibility among potentially responsible parties and the government’s refusal to release parties.

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 with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at June 30, 2002 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. In the future, if the environmental claims develop deficiently, such deficiency would have an adverse impact on future results of operations. (See the

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previous discussion on reinsurance collectibility herein.)

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

**A summary of reserves and activity for the six months then ended June 30, 2002 and 2001, including estimates for applicable IBNR, relating to asbestos and environmental claims separately, is as follows:**

**(in millions)**

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Asbestos: | | | | |
| Reserve for losses and loss expenses at beginning of year | **$1,114** | **$312** | $1,100 | $ 338 |
| Losses and loss expenses incurred | **118** | **72** | 191 | 38 |
| Losses and loss expenses paid | **(82)** | **(40)** | (174) | (60) |
| Reserve for losses and loss expenses at end of period | **$1,150** | **$344** | $1,117 | $ 316 |
| Environmental: | | | | |
| Reserve for losses and loss expenses at beginning of year | **$1,115** | **$407** | $1,345 | $ 517 |
| Losses and loss expenses incurred | **(49)** | **(11)** | (30) | (40) |
| Losses and loss expenses paid | **(79)** | **(39)** | (128) | (46) |
| Reserve for losses and loss expenses at end of period | **$ 987** | **$357** | $1,187 | $ 431 |
| Combined: | | | | |
| Reserve for losses and loss expenses at beginning of year | **$2,229** | **$719** | $2,445 | $ 855 |
| Losses and loss expenses incurred | **69** | **61** | 161 | (2) |
| Losses and loss expenses paid | **(161)** | **(79)** | (302) | (106) |
| Reserve for losses and loss expenses at end of period | **$2,137** | **$701** | $2,304 | $ 747 |

**The average cost per claim settled, dismissed or otherwise resolved for the six month periods ended June 30, 2002 and 2001 was as follows:**

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Asbestos | **$237,000** | **$115,600** | $345,900 | $119,300 |
| Environmental | **84,800** | **41,800** | 51,500 | 18,500 |
| Combined | **126,000** | **61,800** | 101,100 | 35,500 |

**The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at June 30, 2002 and December 31, 2001 were estimated as follows:**

*(in millions)*

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Combined | **$1,018** | **$276** | $1,038 | $278 |

**A summary of asbestos and environmental claims count activity for the six month periods ended June 30, 2002 and 2001 was as follows:**

| | **2002** | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Asbestos** | **Environmental** | **Combined** | Asbestos | Environmental | Combined |

| | | | | | | |
|---|---|---|---|---|---|---|
| Claims at beginning of year | **6,670** | **9,364** | **16,034** | 6,796 | 11,323 | 18,119 |
| Claims during year: | | | | | | |
| Opened | **535** | **989** | **1,524** | 481 | 1,087 | 1,568 |
| Settled | **(72)** | **(284)** | **(356)** | (77) | (776) | (853) |
| Dismissed or otherwise resolved | **(274)** | **(648)** | **(922)** | (426) | (1,708) | (2,134) |
| Claims at end of period | **6,859** | **9,421** | **16,280** | 6,774 | 9,926 | 16,700 |

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

The developed survival ratios include both involuntary and voluntary indemnity payments. Involuntary payments are primarily attributable to court judgments, court orders, covered claims with no coverage defenses, state mandated cleanup costs, claims where AIG's coverage defenses are minimal, and settlements made less than six months before the first trial setting. Also, AIG considers all legal and loss adjustment payments as involuntary.

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

**AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average payment. These ratios at June 30, 2002 and 2001 were as follows:**

| | **2002** | | 2001 | |
|---|---|---|---|---|
| | **Gross** | **Net** | Gross | Net |
| Involuntary survival ratios: | | | | |
| Asbestos | **3.7** | **3.4** | 3.2 | 3.4 |
| Environmental | **17.3** | **13.5** | 17.4 | 16.3 |
| Combined | **7.1** | **6.7** | 6.6 | 7.5 |

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 2001 were $24 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 2002.

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

**Life Insurance Operations**

AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guaranteed investment contracts, universal life and pensions.

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

States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. In 2001, AIG added significantly to its presence in Japan with the acquisition of AIG Star Life Insurance Co., Ltd., (AIG Star Life) as a result of the reorganization of Chiyoda Mutual Life Insurance Company. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. AIG's principal domestic life insurance subsidiaries include American General Life, AIG Annuity and SunAmerica Life. These companies utilize multiple distribution channels including brokerage and career and general agents to offer traditional life products as well as financial investment products. (See also Note (e) of Notes to Financial Statements.)

**Life insurance premium income presented in accordance with GAAP for the six month periods ending June 30, 2002 and 2001 was as follows:**

*(in millions)*

| | **2002** | 2001 |
|---|---|---|
| Premium income: | | |
| Domestic | **$2,259** | $2,588 |
| Foreign | **7,684** | 6,576 |
| Total | **$9,943** | $9,164 |

**Life insurance operations presented on a major product basis for the six month periods ending June 30, 2002 and 2001 were as follows:**

*(in millions)*

| | **2002** | 2001 |
|---|---|---|
| Premium income, deposits and other considerations: | | |
| Domestic: | | |
| Life | **$ 2,209** | $ 2,326 |
| Fixed Annuities, Pension and Investment Products | **12,253** | 10,953 |
| Other | — | 157 |
| Total Domestic | **14,462** | 13,436 |
| Foreign: | | |
| Life | **9,465** | 7,953 |
| Personal Accident | **1,175** | 989 |
| Group Life/Medical | **534** | 468 |
| Fixed Annuity/Pension | **464** | 358 |
| Total Foreign | **11,638** | 9,768 |
| Total premium income, deposits and other considerations | **$ 26,100** | $ 23,204 |
| Net investment income: | | |
| Domestic: | | |
| Life | **$ 1,068** | $ 1,044 |
| Fixed Annuities, Pension and Investment Products | **2,957** | 2,672 |
| Other | — | 4 |
| Total Domestic | **4,025** | 3,720 |
| Foreign: | | |
| Life | **1,704** | 1,504 |
| Personal Accident | **67** | 64 |
| Group Life/Medical | **23** | 23 |
| Fixed Annuity/Pension | **136** | 124 |
| Intercompany Adjustments | **(6)** | (5) |
| Total Foreign | **1,924** | 1,710 |
| Total net investment income | **$ 5,949** | $ 5,430 |
| Operating income before realized capital gains (losses): | | |
| Domestic: | | |
| Life | **$ 588** | $ 525 |
| Fixed Annuities, Pension and Investment Products | **720** | 632 |

| | | |
|---|---|---|
| Other | — | 4 |
| Total Domestic | **1,308** | 1,161 |
| Foreign: | | |
| Life | **1,190** | 943 |
| Personal Accident | **313** | 275 |
| Group Life/Medical | **59** | 53 |
| Fixed Annuity/Pension | **19** | 15 |
| Intercompany Adjustments | **(6)** | (5) |
| Total Foreign | **1,575** | 1,281 |
| Total operating income before realized capital gains (losses) | **2,883** | 2,442 |
| Realized capital gains (losses) | **(339)** | (21) |
| Total operating income | **$ 2,544** | $ 2,421 |
| Life insurance in-force:* | | |
| Domestic | **$ 548,149** | $ 517,067 |
| Foreign | **730,447** | 711,434 |
| Total | **$1,278,596** | $1,228,501 |

* Amounts presented were as at June 30, 2002 and December 31, 2001.

***Life Insurance Results***

**Life insurance operating income** increased 5.1 percent to $2.54 billion during the first six months of 2002 when compared to the same period last year. The contribution of life insurance operating income to income before income taxes, minority interest and cumulative effect of accounting changes amounted to 44.4 percent during the first six months of 2002 compared to 50.4 percent in the same period of 2001.

**AIG's GAAP life premium income during the first six months of 2002 represented a 8.5 percent increase from the same period in 2001.** Foreign life operations produced 77.3 percent and 71.8 percent of the GAAP life premium income in 2002 and 2001, respectively.

The traditional life products, particularly individual life products, were major contributors to the growth in foreign premium income. These traditional life products, coupled with the increased distribution of financial and investment products contributed to the growth in foreign investment income. A mixture of traditional, accident and health and financial products are being sold in Japan through ALICO and AIG Star Life.

Since AIG purchased AIG Star Life, a part of income earned by AIG Star Life has resulted from surrender charges earned on policies that were either surrendered or lapsed. This favorable impact on operating income was anticipated when AIG took control. As these surrenders diminish in subsequent periods, operating income from that source will also be impacted. The majority of AIG Star Life's future income is expected to be related to continuing premiums paid on renewal business, and new business to be generated from a growing agency force.

As previously discussed, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, for the first six months of 2002, when foreign life premium income was translated into U.S. dollars for purposes of the preparation of the consolidated financial statements, total life premium income was approximately 4.0 percentage points less than it would have been if translated utilizing average exchange rates prevailing in 2001.

**Life insurance net investment income** increased 9.6 percent during the first six months of 2002. The growth in net investment income was primarily attributable to both foreign and domestic new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

**Life insurance realized capital losses** for the first six months were $339 million in 2002 and $21 million in 2001. These realized capital losses resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities, redemptions of fixed maturities and incurred losses from WorldCom securities.

***Underwriting and Investment Risk***

The risks associated with the traditional life and accident and health products are underwriting risk and investment risk. The risk associated with the financial and investment contract products is 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 foreign life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage and AIG's domestic life companies, including those of AGC, limit their maximum underwriting exposure on traditional life insurance of a single life to $2.5 million of coverage by using yearly renewable term reinsurance.

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

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

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

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December 31, 2001, the average duration of the investment portfolio with respect to ALICO Japan's operations was 5.4 years.

Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities. The anticipated average period for the receipt and investment of these future premium receipts with respect to ALICO Japan's operations is 6.4 years. These durations compare with an estimated average duration with respect to ALICO Japan's operations of 10.5 years for the corresponding policy liabilities. These durations have not changed significantly during 2002. To maintain an adequate yield to match the interest necessary to support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. (See also the discussion under "Liquidity" herein.)

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

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

**Financial Services Operations**

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

International Lease Finance Corporation (ILFC) engages primarily in the acquisition of commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. Also, ILFC provides, for a fee, fleet management services to certain third-party operators. (See also Note (e) of Notes to Financial Statements.)

AIG Financial Products Corp. and its subsidiaries (AIGFP) structure financial transactions, including long-dated interest rate and currency swaps and structured borrowings through notes, bonds and guaranteed investment agreements. AIGFP does not engage in trading activities with respect to commodity contracts. AIG Trading Group Inc. and its subsidiaries (AIGTG) engage in various commodity trading, foreign exchange trading, interest rate swaps and market making activities. (See also Note (e) of Notes to Financial Statements.)

AIG's Consumer Finance operations include American General Finance, Inc. and its subsidiaries (AGF) as well as AIG Consumer Finance Group, Inc. and its subsidiaries (CFG). AGF and CFG provide a wide variety of consumer finance products, including mortgages, consumer loans, retail sales finance and credit related insurance to customers both domestically and overseas, particularly in emerging markets. (See also Note (e) of Notes to Financial Statements.)

**Financial services operations for the six month periods ending June 30, 2002, and 2001 were as follows:**

*(in millions)*

| | **2002** | 2001 |
|---|---|---|
| Revenues: | | |
| ILFC[(a)] | **$1,367** | $1,278 |
| AIGFP[(b)] | **538** | 519 |
| Consumer Finance[(c)] | **1,227** | 1,250 |
| Other | **109** | 48 |
| Total | **$3,241** | $3,095 |
| Operating income: | | |
| ILFC | **381** | 344 |
| AIGFP | **356** | 354 |
| Consumer Finance | **265** | 233 |
| Other, including intercompany adjustments | **14** | (15) |
| Total | **$1,016** | $ 916 |

(a) Revenues were primarily from aircraft lease rentals.

(b) Revenues were primarily fees from proprietary positions entered into in connection with counterparty transactions.

(c) Revenues were primarily finance charges.

***Financial Services Results***

Financial services operating income increased 10.8 percent in the first six months of 2002 over the same period of 2001. Financial services operating income represented 17.7 percent of AIG’s income before income taxes and minority interest in the first six months of 2002. This compares to 19.1 percent in the same period of 2001.

**ILFC** generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in the first six months of 2002 increased 6.9 percent from the same period of 2001. The revenue growth resulted primarily from the increase in flight equipment under operating lease and the increase in the relative cost of the leased fleet. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During the first six months of 2002, operating income increased 10.7 percent from the same period of 2001. ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing rates at the end of the first six months of 2002 and 2001 were 5.03 percent and 5.49 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (e) of Notes to Financial Statements.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and through committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. As a result of these measures and its own contingency planning, ILFC did not suffer any material losses from airline shutdowns in the aftermath of the September 11 terrorist attacks, but there can be no assurance that ILFC will successfully manage the risks relating to the impact of possible future deterioration in the airline industry. Approximately 80 percent of ILFC's fleet is leased to non-U.S. and Canadian carriers, and this fleet, the most efficient in the airline industry, continues to be in high demand from such carriers. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

**AIGFP** participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in the first six months of 2002 increased 3.6 percent from the same period of 2001. During the first six months of 2002, operating income increased 0.7 percent from the same period of 2001. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note (e) of Notes to Financial Statements.)

**Consumer Finance** operations are comprised of **AGF**, which derives a substantial portion of its revenues from finance charges assessed on outstanding mortgages and finance receivables from the sub-prime market, and **CFG**, which is engaged in developing a multi-product consumer finance business with an emphasis on emerging markets. Although Consumer Finance revenues decreased 1.9 percent in the first six months of 2002 from the same period in 2001, operating income increased 14.0 percent compared to the 2001 period. The decline in revenues was the result of lower yields on the finance receivables, but borrowing costs also declined significantly and spreads, and therefore profits, increased as a result.

AGF is exposed to loss when contractual payments are not received. AGF manages its collection exposure through the mix of types of loans and security thereon. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (e) of Notes to Financial Statements.)

**Retirement Savings & Asset Management Operations**

AIG's retirement savings & asset management operations offer a wide variety of investment products, including variable annuities and mutual funds, as well as investment services, including investment asset management. Such products and services are offered to individuals and institutions both domestically and overseas.

AIG's principal retirement savings & asset management operations are conducted through SunAmerica Asset Management Corp. (SAAMCo), VALIC, AIG Global Investment Group, Inc. and its subsidiaries (Global Investment) and AIG Capital Partners, Inc. (Cap Partners). SAAMCo develops and sells variable annuities and other investment products, sells and manages mutual funds and provides financial services. VALIC provides tax qualified annuities to the employees of educational, healthcare and governmental entities. Global Investment manages third-party institutional, retail and private equity funds invested assets on a global basis, and provides custodial services. Cap Partners organizes, and manages the invested assets of institutional investment funds and may also invest in such funds. Each of these subsidiary operations receives fees for investment products and services provided.

**Retirement savings & asset management operations for the six month periods ending June 30, 2002 and 2001 were as follows:**

*(in millions)*

| | **2002** | 2001 |
|---|---|---|
| Revenues: | | |
| VALIC | **$1,067** | $1,063 |
| SAAMCo | **306** | 345 |
| Other* | **363** | 397 |
| Total | **$1,736** | $1,805 |
| Operating Income: | | |
| VALIC | **$ 411** | $ 334 |
| SAAMCo | **50** | 122 |
| Other* | **119** | 97 |
| Total | **$ 580** | $ 553 |

* Includes Global Investment, Cap Partners, John McStay Investment Counsel and certain overseas variable annuity operations.

***Retirement Savings & Asset Management Results***

Retirement savings & asset management operating income in the first six months of 2002 increased 4.9 percent when compared to the same period of 2001.

Retirement savings & asset management operating income represented 10.1 percent of AIG’s income before income taxes and minority interest in the first six months of 2002. This compares to 11.5 percent in the same period of 2001.

At June 30, 2002, AIG’s third party assets under management, including both retail mutual funds and institutional accounts, approximated $40 billion.

**Other Operations**

Other realized capital losses amounted to $240 million, and $356 million in the first six months of 2002 and 2001, respectively.

Other income (deductions)-net includes income generated by the investment of capital held by AIG SunAmerica Inc. outside of its life insurance subsidiaries, 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 2002, other income (deductions) — net amounted to $(43) million. In the same period of 2001, other income (deductions) — net amounted to $64 million. This decline was primarily the result of weaker performance of AIG SunAmerica Inc.’s investments in partnerships and private equities.

Acquisition, restructuring and related charges of $654 million for the first six months of 2001 represented amounts paid by AGC in connection with the termination of AGC’s merger with Prudential plc.

Income before income taxes, minority interest and cumulative effect of accounting changes amounted to $5.73 billion in the first six months of 2002 compared to $4.81 billion in the same period of 2001.

In the first six months of 2002, AIG recorded a provision for income taxes of $1.76 billion compared to the provision of $1.37 billion in the same period of 2001. These provisions represent effective tax rates of 30.8 percent in the first six months of 2002, and 28.5 percent in the same period of 2001.

Minority interest represents minority shareholders’ equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to $181 million and $209 million in the first six months of 2002 and 2001, respectively.

Income before the cumulative effect of accounting changes amounted to $3.78 billion in the first six months of 2002 and $3.23 billion in the same period of 2001.

Net income amounted to $3.78 billion in the first six months of 2002 and $3.17 billion in the same period of 2001. The increases in net income

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over the periods resulted from those factors described above.

**Capital Resources**

At June 30, 2002, AIG had total capital funds of $54.96 billion and total borrowings of $68.87 billion. At that date, $58.59 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

***Borrowings***

**Total borrowings and borrowings not guaranteed or matched at June 30, 2002 and December 31, 2001 were as follows:**

| *(in millions)* | **2002** | 2001 |
|---|---|---|
| GIAs — AIGFP | **$15,577** | $16,392 |
| Commercial Paper: | | |
| AGC | **2,044** | 2,468 |
| AGF[(a)] | **4,198** | 4,853 |
| AIG Funding, Inc. (Funding) | **1,876** | 902 |
| ILFC[(a)] | **3,246** | 3,494 |
| AIG Finance (Taiwan) Limited[(a)] | **87** | 107 |
| AIG Credit Card Company (Taiwan)[(a)] | **51** | 68 |
| Total | **11,502** | 11,892 |
| Medium Term Notes: | | |
| AGF[(a)] | **5,014** | 4,100 |
| ILFC[(a)] | **4,948** | 4,809 |
| AIG | **498** | 542 |
| Total | **10,460** | 9,451 |
| Notes and Bonds Payable: | | |
| ILFC[(a)] | **10,014** | 7,073 |
| AIGFP | **13,947** | 13,920 |
| AIG | **1,592** | 1,577 |
| AGC | **1,541** | 1,340 |
| AGF[(a)] | **1,997** | 2,201 |
| Total | **29,091** | 26,111 |
| Loans and Mortgages Payable: | | |
| ILFC[(a)(b)] | **314** | 365 |
| AIG Finance (Hong Kong) Limited[(a)] | **303** | 290 |
| CFG[(a)] | **895** | 885 |
| AIG | **723** | 345 |
| Total | **2,235** | 1,885 |
| Total Borrowings | **68,865** | 65,731 |
| Borrowings not guaranteed by AIG | **31,067** | 28,245 |
| Matched GIA borrowings | **15,577** | 16,392 |
| Matched notes and bonds payable — AIGFP | **11,947** | 12,185 |
| | **58,591** | 56,822 |
| Remaining borrowings of AIG | **$10,274** | $ 8,909 |

(a) AIG does not guarantee these borrowings.
(b) Capital lease obligations.

**At June 30, 2002, the commercial paper issued and outstanding was as follows:**

*(dollars in millions)*

| | Net Book Value | Unamortized Discount and accrued interest | Face Amount | Weighted Average Interest Rate | Weighted Average Maturity In Days |
|---|---|---|---|---|---|
| Funding | $ 1,876 | $ 3 | $ 1,879 | 1.82 | 39 |
| ILFC | 3,246 | 7 | 3,253 | 1.86 | 49 |
| AGF | 4,198 | 8 | 4,206 | 1.86 | 40 |
| AGC | 2,044 | 2 | 2,046 | 1.76 | 20 |
| AIGF — Taiwan* | 87 | 1 | 88 | 3.98 | 64 |
| AIGCCC — Taiwan* | 51 | — | 51 | 3.39 | 42 |
| Total | $11,502 | $ 21 | $11,523 | — | — |

* Issued in Taiwan N.T. dollars at prevailing local interest rates.

The maturity distributions of total borrowings at June 30, 2002 and December 31, 2001 were as follows:

*(in millions)*

| | **2002** | 2001 |
|---|---|---|
| Short-term borrowings | **$20,584** | $19,336 |
| Long-term borrowings* | **48,281** | 46,395 |
| Total borrowings | **$68,865** | $65,731 |

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

During the first six months of 2002, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to $13.95 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under “Operational Review”, “Liquidity” and “Derivatives” herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG’s funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding’s commercial paper is subject to the approval of AIG’s Board of Directors. ILFC and A.I. Credit Corp. (AICCO) as well as AIG Credit Card Company (Taiwan) — (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited — (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, AGC and AGF have issued commercial paper for the funding of their own operations. At June 30, 2002, AIG did not guarantee or support the commercial paper of any of its subsidiaries other than

Funding and AGC. In early 2001, AICCO ceased issuing commercial paper under its program and the agreement which AIG had provided supporting the commercial paper was terminated; AICCO's funding requirements are now met through Funding's program. (See also the discussion under "Derivatives" herein.)

AIG and Funding were parties to syndicated revolving credit facilities (collectively, the Facility) aggregating $1.5 billion. The Facility consisted of $1.0 billion in short-term revolving credit facilities and a $500 million five year revolving credit facility. The Facility could have been used for general corporate purposes and also to provide backup for AIG's commercial paper programs administered by Funding. There were no borrowings outstanding under the Facility as of June 30, 2002. Effective July 18, 2002, the Facility was terminated and replaced with a new Facility. The new Facility aggregates to $2.75 billion, consisting of $1.375 billion in a short-term revolving credit facility and $1.375 billion in a five year revolving credit facility.

AGC and AGF were parties to unsecured committed bank credit facilities aggregating $5.2 billion to support their commercial paper borrowings. There were no borrowings under this facility as of June 30, 2002. AGF had $2.0 billion in aggregate principal amount of debt securities registered and available for issuance at June 30, 2002. AGC used the proceeds from the issuance of notes and bonds for general corporate purposes. AGF uses the proceeds from the issuance of notes and bonds for the funding of its finance receivables. As of November 2001, AIG guaranteed the notes and bonds of AGC. Effective July 18, 2002, the bank credit facilities shared by AGC and AGF aggregating $5.2 billion were terminated. On that date, new unsecured syndicated revolving credit facilities aggregating $3.0 billion were established for AGF. The facilities consist of $1.5 billion in a short-term revolving credit facility and $1.5 billion in a five year revolving credit facility, which support AGF's commercial paper borrowings. On July 8, 2002, AGC ceased issuing commercial paper under its program. AGC's funding requirements are now being met through Funding's program. On August 28, 2002, AGC's last outstanding direct commercial paper issuance will mature.

ILFC has entered into committed revolving loans and lines of credit with commercial banks aggregating $2.85 billion to support its commercial paper program. At June 30, 2002, there were no borrowings under these facilities.

At June 30, 2002, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to $14.96 billion, a net increase of $3.08 billion, and recorded a net decline in its capital lease obligations of $51 million and a net decrease in its commercial paper of $248 million. On January 28, 2002, ILFC registered $4.0 billion principal amount of debt securities for issuance from time to time. At June 30, 2002, $2.7 billion had been issued. During the second quarter of 2002, ILFC expanded its Euro Medium Term Note Program to $4.0 billion, under which $2.31 billion in notes were sold through June 30, 2002. Notes issued under this program are included in Notes and Bonds Payable in the accompanying table of borrowings.

ILFC had a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varied from 5.75 percent to 5.90 percent on these aircraft depending on the delivery date of the aircraft. At June 30, 2002, ILFC had $2.23 billion outstanding under this facility. Borrowings with respect to this facility are included in Notes and Bonds Payable in the accompanying table of borrowings.

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

AIGFP has established a Euro Medium Term Note Program under which an aggregate principal amount of up to $4.0 billion of notes may be issued. As of June 30, 2002, $1.18 billion of notes had been issued under the program, all of which are currently outstanding. Notes issued under this program are included in Notes and Bonds Payable in the accompanying table of borrowings.

During the first six months of 2002, AIG issued $4 million principal amount of medium term notes and $48 million of previously issued notes matured. At June 30, 2002, AIG had $640 million in aggregate principal amount of debt securities registered for issuance from time to time.

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

***Capital Funds***

AIG’s capital funds increased $2.81 billion during the first six months of 2002. Unrealized appreciation of investments, net of taxes increased $2 million. During the first six months of 2002, the cumulative translation adjustment loss, net of taxes, increased $295 million. The change from period to period with respect to the unrealized appreciation of investments, net of taxes was primarily impacted by the increase in domestic interest rates. The 2001 transfer of bonds in the held to maturity, at amortized cost category to the bonds available for sale, at market value category in accordance with the transition provisions of FASB 133 resulted in a gain of $339 million recorded in the statement of comprehensive income as a cumulative effect of an accounting change adjustment. (See also the discussion under “Operational Review” and “Liquidity” herein.) The 2001 capital funds included a cumulative effect of an accounting change adjustment gain of $150 million. During the first six months of 2002, there was a loss of $16 million, net of taxes, relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under Notes to Financial Statements and the Consolidated Statement of Comprehensive Income.) During the first six months of 2002, retained earnings increased $3.56 billion, resulting from net income less dividends.

***Stock Repurchase***

During the period from January 2002 through August 5, 2002, AIG repurchased in the open market 10,148,000 shares of its common stock. AIG intends to continue to buy its common shares in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans.

***Dividends from Insurance Subsidiaries***

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. 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, 2002, there were no significant statutory or regulatory issues which would impair AIG’s financial condition, results of operations or liquidity. To AIG’s knowledge, no AIG company is on any regulatory or similar “watch list”. (See also the discussion under “Liquidity” herein.)

***Regulation and Supervision***

AIG’s insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company’s statutory surplus to the risk inherent in its overall operations. At June 30, 2002, the adjusted capital of each of AIG’s domestic general companies and of each of AIG’s domestic life companies exceeded each of their RBC standards by considerable margins. Federal, state or local legislation may affect AIG’s ability to operate and expand its various financial services businesses and changes in the current laws, regulations or interpretations thereof may have a material adverse effect on these businesses.

A substantial portion of AIG’s general insurance business and a majority of its life insurance business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG’s insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may impact AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's net financial exposure at that time in that country.

***Contractual Obligations and Other Commercial Commitments***

**The maturity schedule of AIG's most significant contractual obligations at June 30, 2002 is presented in the following table:**

*(in millions)*

| | Payments due by Period | | | | |
|---|---|---|---|---|---|
| June 30, 2002 | Total | 2002 | 2003 through 2004 | 2005 through 2006 | Remaining years after 2006 |
| Borrowings* | $57,363 | $20,584 | $15,158 | $ 7,649 | $13,972 |
| Unconditional Obligations to Purchase Aircraft | 29,325 | 1,657 | 7,778 | 9,778 | 10,112 |
| Other Long-Term Obligations: | | | | | |
| ILFC | 1,133 | 280 | 853 | — | — |
| Total | $87,821 | $22,521 | $23,789 | $17,427 | $24,084 |

* Excludes commercial paper and includes ILFC's capital lease obligations.

**The maturity schedule of AIG's most significant Other Commercial Commitments at June 30, 2002 is presented in the following table:**

*(in millions)*

| | Amount of Commitment Expiration | | | | |
|---|---|---|---|---|---|
| June 30, 2002 | Total Amounts Committed | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Letters of Credit: | | | | | |
| AIGFP | $ 829 | $ 2 | $ 23 | $ 71 | $ 733 |
| Guarantees: | | | | | |
| AIG SunAmerica | 3,671 | — | 1,031 | 104 | 2,536 |
| Other Commercial Commitments: | | | | | |
| AIGFP[(a)] | 4,285 | 6 | 28 | 45 | 4,206 |
| ILFC[(b)] | 3,636 | — | 1,184 | 1,434 | 1,018 |
| AIG SunAmerica | 1,437 | 27 | 522 | 888 | — |
| Total | $13,858 | $ 35 | $2,788 | $2,542 | $8,493 |

(a) Primarily liquidity facilities provided in connection with certain municipal swap transactions.
(b) Primarily in connection with aircraft acquisitions.

***Special Purpose Vehicles***

AIG uses special purposes vehicles (SPVs) primarily in connection with certain guaranteed investment contract programs ("GIC Programs") written by its life insurance subsidiaries, certain products provided by AIGFP, and certain invested asset and asset management activities.

In the GIC Programs, AIG's life insurance subsidiaries (principally SunAmerica Life Insurance Company) provide guaranteed investment contracts (GICs) to SPVs which are not controlled by AIG. The SPVs issue notes or bonds which are sold to third party institutional investors. Neither AIG nor the insurance company issuing the GICs has any obligation to the investors in the notes or bonds. The proceeds from the SPVs' issuance of securities are used to invest in the GICs. The insurance company subsidiaries use these proceeds to invest in a diversified portfolio of securities, primarily investment grade bonds (see also the discussion under "Liquidity: Insurance Invested Assets"). Both the assets and the liabilities of the insurance companies arising from these GIC Programs are presented in AIG's consolidated balance sheet. Thus, at June 30, 2002, approximately $27 billion of policyholders' contract deposits represented liabilities from issuances of GICs included in these GIC Programs, offset by the proceeds from the issuances included as insurance invested assets.

AIGFP uses SPVs as an integral part of its ongoing operations with respect to specific structured transactions with independent third parties. In most instances, AIGFP controls and manages the assets and liabilities with respect to these SPVs, subject to certain transaction specific limitations. These SPVs are fully consolidated by AIG (see the discussions of AIGFP under “Operations Review: Financial Services Operations”). AIGFP also sponsors an SPV that issues commercial paper and secured liquidity notes to third-party institutional investors. This SPV uses the proceeds of these offerings to obtain beneficial interests in certain financial assets (total assets of approximately $1 billion), which serve as collateral for the securities issued by the SPV. AIGFP provides credit and liquidity support to this SPV, which is not consolidated by AIG.

AIG’s insurance operations also invest in assets of SPVs. These SPVs are established by unrelated third parties. Investments include collateralized mortgage backed securities and similar securities backed by pools of mortgages, consumer receivables or other assets. The investment in an SPV allows AIG’s insurance entities to purchase assets permitted by insurance regulations while maximizing the return on these assets.

AIG provides investment management services to certain SPVs. AIG receives management fees for these services and may take a minority ownership interest in these SPVs, which interests are then included as investments in AIG’s consolidated balance sheet. AIG services may be terminated with or without cause.

To facilitate and expand certain retirement savings & asset management activities, AIG establishes SPVs. AIG receives fees for management of the assets held in the SPV which support the issuance of securities such as collateralized bond obligations sold by the SPV to independent third party investors. These SPVs serve a variety of business purposes, including financing, liquidity, or to facilitate independent third party management participation.

AIG has established stringent guidelines with respect to the formation of and investment in SPVs.

**Liquidity**

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

At June 30, 2002, AIG’s consolidated invested assets included $13.21 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first six months of 2002 amounted to $6.45 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG’s insurance operations generated approximately $21.2 billion in pre-tax cash flow during the first six months of 2002. Cash flow includes periodic premium collections, including policyholders’ contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG’s insurance investment operations generated approximately $6.5 billion in investment income cash flow during the first six months of 2002. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses.

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

With respect to life insurance operations, if a substantial portion of the life insurance operations bond portfolio diminished significantly in value and/or defaulted, AIG would need to liquidate other portions of its life insurance investment portfolio and/or arrange financing. Potential events causing such a liquidity strain could be the result of economic collapse of a nation or region in which AIG life insurance operations exist, nationalization, terrorist acts or other such economic or political upheaval. (See also the discussions under “Operational Review: Life Insurance Operations” herein.)

In addition to the combined insurance pre-tax operating cash flow, AIG’s insurance operations held $12.14 billion in cash and short-term investments at June 30, 2002. The aforementioned operating cash flow and the cash and short-term balances held provided AIG’s insurance operations with a significant amount of liquidity.

This liquidity is available, among other things, to purchase predominantly high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy loans and collateral loans. This cash flow coupled with proceeds of approximately $51 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $69 billion of fixed income securities and marketable equity securities during the first six months of 2002.

**Invested Assets**

**The following table is a summary of AIG’s invested assets by significant segment, including investment income due and accrued of $3.96 billion and $3.68 billion and real estate of $2.80 billion and $2.65 billion, respectively, at June 30, 2002 and December 31, 2001:**

*(dollars in millions)*

| | **June 30, 2002** | | December 31, 2001 | |
|---|---|---|---|---|
| | **Invested Assets** | **Percent of Total** | Invested Assets | Percent of Total |
| General insurance | **$ 45,904** | **11.7%** | $ 43,159 | 11.9% |
| Life insurance | **237,228** | **60.3** | 212,903 | 58.5 |
| Financial services | **106,168** | **27.0** | 103,944 | 28.6 |
| Other | **4,073** | **1.0** | 3,722 | 1.0 |
| Total | **$393,373** | **100.0%** | $363,728 | 100.0% |

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**Insurance Invested Assets**

**The following tables summarize the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at June 30, 2002 and December 31, 2001:**

*(dollars in millions)*

| June 30, 2002 | General Insurance | Life Insurance | Total | Percent of Total | Percent Distribution Domestic | Percent Distribution Foreign |
|---|---|---|---|---|---|---|
| Fixed maturities: | | | | | | |
| Available for sale, at market value[a] | **$31,586** | **$185,639** | **$217,225** | **76.7%** | **69.0%** | **31.0%** |
| Equity securities, at market value[b] | **4,689** | **3,354** | **8,043** | **2.8** | **50.2** | **49.8** |
| Mortgage loans on real estate, policy and collateral loans | **48** | **17,598** | **17,646** | **6.2** | **71.4** | **28.6** |
| Short-term investments, including time deposits, and cash | **1,728** | **10,408** | **12,136** | **4.3** | **72.2** | **27.8** |
| Real estate | **441** | **2,230** | **2,671** | **1.0** | **19.2** | **80.8** |
| Investment income due and accrued | **680** | **3,176** | **3,856** | **1.4** | **65.0** | **35.0** |
| Other invested assets | **6,732** | **14,823** | **21,555** | **7.6** | **78.6** | **21.4** |
| Total | **$45,904** | **$237,228** | **$283,132** | **100.0%** | **69.0%** | **31.0%** |

(a) Includes $963 million of bond trading securities, at market value.
(b) Includes $1.62 billion of non-redeemable preferred stocks, at market value.

*(dollars in millions)*

| December 31, 2001 | General Insurance | Life Insurance | Total | Percent of Total | Percent Distribution Domestic | Percent Distribution Foreign |
|---|---|---|---|---|---|---|
| Fixed maturities: | | | | | | |
| Available for sale, at market value[a] | $29,602 | $169,750 | $199,352 | 77.8% | 68.8% | 31.2% |
| Equity securities, at market value[b] | 4,568 | 3,139 | 7,707 | 3.0 | 53.9 | 46.1 |
| Mortgage loans on real estate, policy and collateral loans | 58 | 17,101 | 17,159 | 6.7 | 71.4 | 28.6 |
| Short-term investments, including time deposits, and cash | 1,652 | 5,520 | 7,172 | 2.8 | 49.6 | 50.4 |
| Real estate | 410 | 2,106 | 2,516 | 1.0 | 21.5 | 78.5 |
| Investment income due and accrued | 573 | 3,002 | 3,575 | 1.4 | 63.9 | 36.1 |
| Other invested assets | 6,296 | 12,285 | 18,581 | 7.3 | 78.4 | 21.6 |
| Total | $43,159 | $212,903 | $256,062 | 100.0% | 68.2% | 31.8% |

(a) Includes $842 million of bond trading securities, at market value.
(b) Includes $1.72 billion of non-redeemable preferred stocks, at market value.

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

***Fixed Maturity Investments***

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

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

***Credit Quality***

At June 30, 2002, approximately 69 percent of the fixed maturities investments were domestic securities. Approximately 31 percent of such domestic securities were rated AAA. Approximately 8 percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At June 30, 2002, approximately 12 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 13 percent were below investment grade or not rated at that date. A large portion of the foreign insurance fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

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

***Equity Investments***

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

Where declines in value of fixed income and equity securities below amortized cost or cost are considered to be other than temporary, a charge is reflected in income for the difference between amortized cost or cost and estimated net realizable value.

***Mortgage Investments***

Mortgage loans on real estate, policy and collateral loans comprised 6.2 percent of AIG's insurance invested assets at June 30, 2002. AIG's insurance operations' holdings of real estate mortgages amounted to $11.08 billion of which 86.0 percent was domestic. At June 30, 2002, only a nominal amount were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At June 30, 2002, AIG's insurance holdings of collateral loans amounted to $602 million, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans increased from $5.79 billion at December 31, 2001 to $5.97 billion at June 30, 2002.

***Short-term Investments***

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

***Real Estate Investments***

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

***Other Investments***

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

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, AIG and its insurance subsidiaries may enter into derivative transactions as end users. (See also the discussion under "Derivatives" herein.)

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

***Managing Market Risk***

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

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

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

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

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

AIG calculated the VaR with respect to the net fair value of each of AIG's insurance segments as of June 30, 2002 and December 31, 2001. AIG uses the historical simulation methodology which entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure). A one month holding period was assumed in computing the VaR figure.

**The following table presents the VaR on a combined basis and of each component of market risk for each of AIG's insurance segments as of June 30, 2002 and December 31, 2001. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.**

*(in millions)*

| | General Insurance | | Life Insurance | |
|---|---|---|---|---|
| **Market Risk** | **2002** | 2001 | **2002** | 2001 |
| Combined | **$794** | $779 | **$1,958** | $1,804 |
| Interest rate | **401** | 425 | **1,874** | 1,631 |
| Currency | **54** | 34 | **122** | 134 |
| Equity | **774** | 710 | **731** | 627 |

**The following table presents the average, high and low VaRs on a combined basis and of each component of market risk for each of AIG's insurance segments as of June 30, 2002 and December 31, 2001.**

*(in millions)*

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Average** | **High** | **Low** | Average | High | Low |
| **General Insurance** | | | | | | |
| Market Risk | | | | | | |
| Combined | **$ 812** | **$ 863** | **$ 779** | $ 797 | $ 837 | $ 744 |
| Interest rate | **408** | **425** | **399** | 449 | 464 | 425 |
| Currency | **42** | **54** | **34** | 46 | 59 | 34 |
| Equity | **768** | **822** | **710** | 741 | 812 | 603 |
| **Life Insurance** | | | | | | |
| Market Risk | | | | | | |
| Combined | **$1,868** | **$1,958** | **$1,804** | $1,572 | $1,804 | $1,354 |
| Interest rate | **1,740** | **1,874** | **1,631** | 1,512 | 1,631 | 1,364 |
| Currency | **121** | **134** | **108** | 216 | 373 | 134 |
| Equity | **675** | **731** | **627** | 430 | 627 | 332 |

**Financial Services Invested Assets**

**The following table is a summary of the composition of AIG's financial services invested assets at June 30, 2002 and December 31, 2001. (See also the discussions under "Operational Review: Financial Services Operations", "Operational Review: Retirement Savings & Asset Management Operations", "Capital Resources" and "Derivatives" herein.)**

*(dollars in millions)*

| | 2002 | | 2001 | |
|---|---|---|---|---|
| | **Invested Assets** | **Percent of Total** | Invested Assets | Percent of Total |
| Flight equipment primarily under operating leases, net of accumulated depreciation | **$ 25,592** | **24.1%** | $ 22,710 | 21.9% |
| Finance receivables, net of allowance | **13,955** | **13.1** | 13,955 | 13.4 |
| Unrealized gain on interest rate and currency swaps, options and forward transactions | **11,775** | **11.1** | 11,493 | 11.1 |
| Securities available for sale, at market value | **16,030** | **15.1** | 17,801 | 17.1 |
| Trading securities, at market value | **6,643** | **6.3** | 5,733 | 5.5 |
| Securities purchased under agreements to resell, at contract value | **22,009** | **20.7** | 21,638 | 20.8 |
| Trading assets | **5,306** | **5.0** | 6,234 | 6.0 |
| Spot commodities, at market value | **408** | **0.4** | 352 | 0.3 |
| Other, including short-term investments | **4,450** | **4.2** | 4,028 | 3.9 |
| Total | **$106,168** | **100.0%** | $103,944 | 100.0% |

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During the first six months of 2002, ILFC acquired flight equipment costing $3.38 billion. (See also the discussion under "Operational Review: Financial Services Operations" and "Capital Resources" herein.)

**ILFC** is exposed to market risk and the risk of loss of fair value resulting from adverse fluctuations in interest rates. As of June 30, 2002 and December 31, 2001, AIG statistically measured the aforementioned loss of fair value through the application of a VaR model. In this analysis, the net fair value of ILFC was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue and the financial instrument liabilities which included the future servicing of the current debt. The estimated impact of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of ILFC using the historical simulation methodology, as previously described. As of June 30, 2002 and December 31, 2001, the VaR with respect to the aforementioned net fair value of

ILFC was approximately $43 million and $10 million, respectively.

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

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

**AIGFP's** derivative transactions are carried at market value or at estimated fair value when market prices are not readily available. AIGFP reduces its economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. The estimated fair values of these transactions represent assessments of the present value of expected future cash flows. These transactions are exposed to liquidity risk if AIGFP were to sell or close out the transactions prior to maturity. AIG believes that the impact of any such limited liquidity would not be significant to AIG's financial condition or its overall liquidity. (See also the discussion under "Operational Review: Financial Services Operations" and "Derivatives" herein.)

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

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At June 30, 2002, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with $182 million of these securities. There were no securities deemed below investment grade at June 30, 2002. There have been no significant downgrades through August 1, 2002. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

AIGFP is exposed to credit risk. If its securities available for sale portfolio were to suffer significant default and the collateral held declined significantly in value with no replacement, AIGFP could have a liquidity strain. AIG guarantees AIGFP's debt and, as a result, is responsible for all of AIGFP's obligations.

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

**The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at June 30, 2002 were as follows:**

*(in millions)*

| | Gross Unrealized Gains | Gross Unrealized Losses |
|---|---|---|
| Securities available for sale, at market value | $ 1,508 | $1,503 |
| Unrealized gain/loss on interest rate and currency swaps, options and forward transactions[(a)(b)] | 11,775 | 9,385 |
| Trading assets | 10,380 | 8,444 |
| Spot commodities, at market value | — | 4 |
| Trading liabilities | — | 1,921 |
| Securities and spot commodities sold but not yet purchased, at market value | 134 | — |

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

(b) At June 30, 2002, AIGTG’s replacement values with respect to interest rate and currency swaps were $334 million.

AIGFP’s interest rate and currency risks on securities available for sale, at market, are managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At June 30, 2002 the unrealized gains and losses remaining after the benefit of the offsets were $63 million and $58 million, respectively.

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

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

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

***Managing Market Risk***

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

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

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

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

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

AIGFP does not seek to manage the market risk of each of its transactions through an individual offsetting transaction. Rather, AIGFP takes a portfolio approach to the management of its market risk exposure. AIGFP values its portfolio, including interest rate swaps, currency swaps, equity swaps, swaptions, options and forwards, at market value or estimated fair value when market values are not readily available. Unrealized gains and losses, with respect to this portfolio are reflected in income currently. These valuations represent an assessment of the present values of expected future cash flows of AIGFP's transactions and may include reserves for such risks as are deemed appropriate by AIGFP's and AIG's management. AIGFP evaluates the portfolio's discounted cash flows with reference to current market conditions, maturities within the portfolio and other relevant factors. The aforementioned estimated fair values are based upon the use of valuation models. These models utilize, among other things, market liquidity and current interest, foreign exchange and volatility rates. AIGFP attempts to secure reliable and independent current market prices, such as published exchange prices, external subscription services such as from Bloomberg or Reuters or third party broker quotes for use in this model. When such prices are not available, AIGFP uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions. Historically, actual results have not materially deviated from these models. These valuation models are integrated into the evaluation of the portfolio, as described above, in order to provide timely information for the market risk management of the portfolio. Based upon this evaluation, AIGFP determines what, if any, offsetting transactions are necessary to reduce the market risk exposure of the portfolio. AIG manages its market risk with a variety of transactions, including swaps, trading securities, futures and forward contracts and other transactions as appropriate. The recorded values of these transactions may be different than the values that might be realized if AIGFP were required to sell or close out the transactions prior to maturity. AIG believes that such differences are not significant to the results of operations, financial condition or liquidity. Such differences would be immediately recognized when the transactions are sold or closed out prior to maturity.

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

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.

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

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

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

AIGTG attempts to secure reliable current market prices, such as published prices or third party quotes, to value its derivatives. Where such prices are not available, AIGTG uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions. Historically, actual results have not materially deviated from these models. The methodology may reflect interest and exchange rates, commodity prices, volatility rates and other relevant factors. Unrealized gains and losses with respect to AIGTG's positions are reflected in income currently.

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, market liquidity and the effect of time.

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

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

AIG calculated the VaR with respect to AIGFP and AIGTG as of June 30, 2002 and December 31, 2001. AIG uses the historical simulation methodology which entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure).

**The following table presents the VaR on a combined basis and of each component of AIGFP's and AIGTG's market risk as of June 30, 2002 and December 31, 2001. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.**

*(in millions)*

| | AIGFP[(a)] | | AIGTG[(b)] | |
|---|---|---|---|---|
| **Market Risk** | **2002** | 2001 | **2002** | 2001 |
| Combined | **$ 8** | $ 12 | **$ 2** | $ 2 |
| Interest rate | **7** | 12 | **2** | 2 |
| Currency | **—** | — | **1** | 1 |
| Equity | **2** | 1 | **—** | — |

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

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

**The following table presents the average, high and low VaRs on a combined basis and of each component of AIGFP's and AIGTG's market risk as of June 30, 2002 and December 31, 2001.**

*(in millions)*

| | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| | **Average** | **High** | **Low** | Average | High | Low |
| **AIGFP Market Risk:** | | | | | | |
| Combined | **$ 9** | **$ 12** | **$ 8** | $ 12 | $ 15 | $ 9 |
| Interest rate | **9** | **12** | **7** | 11 | 15 | 8 |
| Currency | — | — | — | — | 1 | — |
| Equity | **1** | **2** | **1** | 1 | 2 | — |
| **AIGTG Market Risk:** | | | | | | |
| Combined | **$ 3** | **$ 3** | **$ 2** | $ 3 | $ 6 | $ 2 |
| Interest Rate | **3** | **3** | **2** | 3 | 4 | 2 |
| Currency | **1** | **1** | — | 2 | 3 | 1 |

**Derivatives**

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

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

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

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

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

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Discussions with respect to AIGFP's and AIGTG's counterpart credit quality, fair value source and notional amounts follow.

***Counterparty Credit Quality***

The following tables provide the counterparty credit quality amounts of AIGFP's and AIGTG's derivatives transactions at June 30, 2002 and December 31, 2001.

The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss after the application of the aforementioned strategies, netting under ISDA Master Agreements and applying collateral held. Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all interest rate, currency and equity swaps, swaptions and forward commitments approximated $11.28 billion at June 30, 2002 and $10.84 billion at December 31, 2001. The net replacement value for futures and forward contracts approximated $51 million at June 30, 2002 and $64 million at December 31, 2001. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss and is used for financial reporting purposes.

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or, where such ratings are not available, by internal analysis. At June 30, 2002 and December 31, 2001, the concentration of credit exposure with respect to counterparties judged A or higher by AIGFP was 93 percent and 93 percent, respectively.

**The counterparty credit quality determined by AIGFP by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:**

*(in millions)*

| | Net Replacement Value | | | |
|---|---|---|---|---|
| | **Swaps and Swaptions** | **Futures and Forward Contracts** | **Total 2002** | Total **2001** |
| Counterparty credit quality: | | | | |
| AAA | $ 5,097 | $ — | **$ 5,097** | $ 4,388 |
| AA | 3,037 | 50 | **3,087** | 3,214 |
| A | 2,334 | 1 | **2,335** | 2,498 |
| BBB | 793 | — | **793** | 784 |
| Below investment grade | 14 | — | **14** | 23 |
| Total | $11,275 | $ 51 | **$11,326** | $10,907 |

**At June 30, 2002 and December 31, 2001, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:**

*(in millions)*

| | Net Replacement Value | | | |
|---|---|---|---|---|
| | **Swaps and Swaptions** | **Futures and Forward Contracts** | **Total 2002** | Total **2001** |
| Non-U.S. banks | $ 2,291 | $ 51 | **$ 2,342** | $ 2,464 |
| Insured municipalities | 701 | — | **701** | 638 |
| U.S. industrials | 2,545 | — | **2,545** | 2,113 |
| Governmental | 457 | — | **457** | 563 |
| Non-U.S. financial service companies | 346 | — | **346** | 428 |
| Non-U.S. industrials | 1,292 | — | **1,292** | 1,289 |
| Special purpose | 2,339 | — | **2,339** | 1,851 |
| U.S. banks | 150 | — | **150** | 72 |
| U.S. financial service companies | 1,082 | — | **1,082** | 1,211 |
| Supranationals | 72 | — | **72** | 278 |
| Total | $11,275 | $ 51 | **$11,326** | $10,907 |

With respect to AIGTG's derivatives contracts at June 30, 2002 and December 31, 2001, the net replacement values represent the net sum of estimated positive fair values after the application of legally enforceable master netting agreements and collateral held. The net replacement values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss.

Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps was $3.24 billion and $3.05 billion at June 30, 2002 and December 31, 2001, respectively.

**AIGTG's net replacement value at June 30, 2002 and December 31, 2001 was as follows:**

*(in millions)*

| | Remaining Life | | | | | |
|---|---|---|---|---|---|---|
| | One Year | Two Through Five Years | Six Through Ten Years | After Ten Years | Total 2002 | Total 2001 |
| Credit exposure: | | | | | | |
| Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps: | | | | | | |
| Gross replacement value | $ 7,875 | $ 2,008 | $ 1,958 | $ 157 | **$11,998** | $10,074 |
| Master netting arrangements | (5,087) | (1,493) | (1,543) | (131) | **(8,254)** | (6,691) |
| Collateral | (77) | (105) | (293) | (26) | **(501)** | (330) |
| Net replacement value* | $ 2,711 | $ 410 | $ 122 | $ — | **$ 3,243** | $ 3,053 |

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

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or, where such ratings are not available, internal analysis. At June 30, 2002 and December 31, 2001, the concentration of credit exposure with respect to counterparties judged A or higher by AIGTG was 83 percent and 78 percent, respectively.

**Also, as of June 30, 2002 and December 31, 2001, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio were as follows:**

*(in millions)*

| | Net Replacement Value | |
|---|---|---|
| | 2002 | 2001 |
| Counterparty credit quality: | | |
| AAA | **$ 624** | $ 391 |
| AA | **1,230** | 1,117 |
| A | **837** | 863 |
| BBB | **186** | 330 |
| Below investment grade | **30** | 130 |
| Not externally rated, including exchange traded futures and options* | **336** | 222 |
| Total | **$3,243** | $3,053 |
| Counterparty breakdown by industry: | | |
| Non-U.S. banks | **$ 953** | $1,151 |
| U.S. industrials | **469** | 503 |
| Governmental | **101** | 71 |
| Non-U.S. financial service companies | **215** | 187 |
| Non-U.S. industrials | **265** | 190 |
| U.S. banks | **559** | 353 |
| U.S. financial service companies | **345** | 376 |
| Exchanges* | **336** | 222 |
| Total | **$3,243** | $3,053 |

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

*Fair Value Source*

The fair value sources of the net replacement values of AIGFP's derivatives portfolio were based on valuation models. Although these models are proprietary, the inputs were obtained from independently published exchange prices, external subscription services' prices such as Bloomberg or Reuters or third party broker quotes for use in these models. When such prices are not available, AIGFP uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions.

**At June 30, 2002 and December 31, 2001, the fair value source of the net replacement value of AIGTG's derivatives portfolio was as follows:**

*(in millions)*

| | Maturity of Fair Value of Contracts | | | | | |
|---|---|---|---|---|---|---|
| **Source of Fair Value** | **One Year** | **Two Through Five Years** | **Six Through Ten Years** | **After Ten Years** | **Total 2002** | Total 2001 |
| Prices actively quoted | $2,711 | $ — | $ — | $ — | **$2,711** | $2,412 |
| Prices provided by other external sources | — | 272 | — | — | **272** | 530 |
| Prices based on models and other valuation methods | — | 138 | 122 | — | **260** | 111 |
| Total | $2,711 | $410 | $122 | $ — | **$3,243** | $3,053 |

*Notional Amounts*

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

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

**The following table presents AIGFP's derivative portfolio by maturity and type of derivatives at June 30, 2002 and December 31, 2001.**

*(in millions)*

| | Remaining Life of Notional Amount* | | | | | |
|---|---|---|---|---|---|---|
| | **One Year** | **Two Through Five Years** | **Six Through Ten Years** | **After Ten Years** | **Total 2002** | Total 2001 |
| AIGFP interest rate, currency and equity/commodity swaps and swaptions: | | | | | | |
| Notional amount: | | | | | | |
| Interest rate swaps | $133,197 | $265,475 | $119,717 | $11,857 | **$530,246** | $436,669 |
| Currency swaps | 35,222 | 80,512 | 42,670 | 6,186 | **164,590** | 139,174 |
| Swaptions and equity swaps | 23,833 | 26,263 | 14,901 | 5,105 | **70,102** | 58,491 |
| Total | $192,252 | $372,250 | $177,288 | $23,148 | **$764,938** | $634,334 |
| Futures and forward contracts: | | | | | | |
| Exchange traded futures contracts contractual amount | $ 8,530 | $ — | $ — | $ — | **$ 8,530** | $ 10,036 |
| Over the counter forward contracts contractual amount | $ 52,233 | $ 398 | $ 205 | $ — | **$ 52,836** | $ 58,003 |

* Notional amount is not representative of either market risk or credit risk.

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**The following table provides the contractual and notional amounts by maturity and type of derivative of AIGTG's derivatives portfolio at June 30, 2002 and December 31, 2001.**

*(in millions)*

| | Remaining Life | | | | | |
|---|---|---|---|---|---|---|
| | **One Year** | **Two Through Five Years** | **Six Through Ten Years** | **After Ten Years** | **Total 2002** | Total 2001 |
| Contractual amount of futures, forwards and options: | | | | | | |
| Exchange traded futures and options | $ 14,267 | $ 3,142 | $ 30 | $ — | $ 17,439 | $ 14,977 |
| Forwards | $197,836 | $14,256 | $ 1,366 | $ 36 | $213,494 | $184,102 |
| Over the counter purchased options | $ 79,854 | $12,513 | $24,161 | $233 | $116,761 | $138,655 |
| Over the counter sold options[(a)] | $ 77,218 | $12,723 | $24,733 | $278 | $114,952 | $137,661 |
| Notional amount[(b)]: | | | | | | |
| Interest rate swaps and forward rate agreements | $ 15,136 | $37,701 | $ 7,713 | $161 | $ 60,711 | $ 59,683 |
| Currency swaps | 2,240 | 5,441 | 763 | — | 8,444 | 11,092 |
| Swaptions | 2,460 | 8,689 | 1,457 | — | 12,606 | 7,280 |
| Total | $ 19,836 | $51,831 | $ 9,933 | $161 | $ 81,761 | $ 78,055 |

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

(b) Notional amount is not representative of either market risk or credit risk.

In addition to its role as derivatives dealer through AIGFP and AIGTG, AIG and its subsidiaries, including its insurance subsidiaries, use derivatives primarily to minimize AIG's asset-liability exposure and foreign currency and interest rate exposures. These transactions are generally executed with AIGFP and AIGTG as counterparty, who in turn hedge these transactions in the market place. Thus, AIGFP and AIGTG assume the credit risk exposure.

AIG also uses derivatives to help match assets and liabilities in several of its businesses, including its insurance operations. For example, AIG can use currency and interest rate swaps to convert foreign-currency investment contract liabilities into US dollar-based exposures. Thus, these liabilities are more properly matched with US dollar assets. In life insurance, AIG uses swaps to reduce the mismatch between long dated life insurance liabilities and shorter dated local currency assets. Swaps also enable AIG to balance its asset and liability durations in consumer finance operations.

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

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

Legal risk 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.)

**Important Accounting Policies**

AIG considers among its most important accounting policies those policies with respect to reserves for losses and loss expenses, future policy benefits for life and accident and health insurance contracts, deferred policy acquisition costs, and fair value with respect to certain assets and liabilities of certain of the subsidiaries of AIG's financial services operations. These are the policies that require management's most significant exercise of judgment on both a quantitative and qualitative basis. Further explanation of how management exercises that judgment is included throughout this Management's Discussion and Analysis, and in the notes to the consolidated financial statements at December 31, 2001.

**Accounting Standards**

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (FASB 142). As of January 1, 2002, AIG adopted FASB 142. FASB 142 requires AIG to discontinue the amortization of goodwill in its consolidated income statement. Amortization expense recorded in AIG's consolidated statement of income amounted to $76 million pre-tax for the first six months of 2001 and $40 million pre-tax for the second quarter of 2001.

FASB 142 requires goodwill to be subject to an assessment of impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. The assessment of impairment involves a two-step process prescribed in FASB 142, whereby an initial assessment for potential impairment is performed, followed by a measurement of the amount of impairment, if any. FASB 142 also requires the completion of a transitional impairment test in the year of adoption, with any identified impairments recognized as a cumulative effect of a change in accounting principles. During the second quarter, AIG completed its transitional impairment test for 2002, resulting in no impairment.

Changes in the carrying amount of goodwill are primarily caused as a result of foreign currency translation adjustments.

## PART II — OTHER INFORMATION

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

At the Annual Meeting of Shareholders held on May 15, 2002, the Shareholders:

(a) elected twenty directors as follows:

| Nominee | Shares For | Shares Withheld |
|---|---|---|
| M. Bernard Aidinoff | 2,328,938,339 | 40,720,656 |
| Eli Broad | 2,120,084,418 | 249,574,577 |
| Pei-yuan Chia | 2,332,361,393 | 37,297,602 |
| Marshall A. Cohen | 2,330,406,204 | 39,252,791 |
| Barber B. Conable, Jr. | 2,330,309,771 | 39,349,224 |
| Robert L. Crandall | 2,331,224,075 | 38,434,920 |
| Martin S. Feldstein | 2,331,858,472 | 37,800,523 |
| Ellen V. Futter | 2,331,487,146 | 38,171,849 |
| Maurice R. Greenberg | 2,121,701,036 | 247,957,959 |
| Carla A. Hills | 2,330,340,237 | 39,318,758 |
| Frank J. Hoenemeyer | 2,329,982,045 | 39,676,950 |
| Richard C. Holbrooke | 2,331,875,168 | 37,783,827 |
| Edward E. Matthews | 2,118,902,516 | 250,756,479 |
| Howard I. Smith | 2,119,002,210 | 250,656,785 |
| Martin J. Sullivan | 2,118,176,512 | 251,482,483 |
| Thomas R. Tizzio | 2,118,335,086 | 251,323,909 |
| Edmund S.W. Tse | 2,119,384,095 | 250,274,900 |
| Jay S. Wintrob | 2,120,224,978 | 249,434,017 |
| Frank G. Wisner | 2,122,483,471 | 247,175,524 |
| Frank G. Zarb | 2,329,020,316 | 40,638,679 |

(b) approved by a vote of 2,216,464,509 shares to 104,578,907 shares, with 48,615,579 abstentions, a proposal to adopt a 2002 Stock Incentive Plan;

(c) approved by a vote of 2,287,947,203 shares to 40,599,153 shares, with 41,112,639 abstentions, a proposal to ratify the selection of PricewaterhouseCoopers LLP as independent accountants for 2002; and

(d) rejected by a vote of 630,010,018 shares for and 1,474,097,492 shares against, with 51,588,662 shares abstaining and 213,962,823 shares not voting, a shareholder proposal requesting AIG to change the Board nomination process.

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

(a) Exhibits
See accompanying Exhibit Index.

(b) Reports on Form 8-K

During the three months ended June 30, 2002, there were no Current Reports filed on Form 8-K:

**SIGNATURES**

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

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/s/ HOWARD I. SMITH

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

Dated: August 8, 2002

**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 | Included in Note (f) of Notes to Financial Statements. |
| 12 | Statement re computation of ratios | Filed herewith. |
| 15 | Letter re unaudited interim financial information | None |
| 18 | Letter re change in accounting principles | None |
| 19 | Report furnished to security holders | None |
| 22 | Published report regarding matters submitted to vote of security holders | None |
| 23 | Consents of experts and counsel | None |
| 24 | Power of attorney | None |
| 99 | Additional exhibits | None |

**EXHIBIT 12**

**AMERICAN INTERNATIONAL GROUP, INC.**

**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**
**(in millions, except ratios)**

| | Six Months Ended June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Income before income taxes, minority interest and cumulative effect of accounting changes | $5,726 | $4,805 | $2,767 | $2,005 |
| Less — Equity income of less than 50% owned persons | 47 | 11 | 23 | 6 |
| Add — Dividends from less than 50% owned persons | 11 | 1 | 9 | 1 |
| | 5,690 | 4,795 | 2,753 | 2,000 |
| Add — | | | | |
| Fixed charges | 1,904 | 2,092 | 901 | 1,042 |
| Less — | | | | |
| Capitalized interest | 29 | 32 | 14 | 16 |
| Income before income taxes, minority interest, cumulative effect of accounting changes and fixed charges | $7,565 | $6,855 | $3,640 | $3,026 |
| Fixed charges: | | | | |
| Interest costs | $1,814 | $2,019 | $ 856 | $1,006 |
| Rent expense* | 90 | 73 | 45 | 36 |
| Total fixed charges | $1,904 | $2,092 | $ 901 | $1,042 |
| Ratio of earnings to fixed charges | 3.97 | 3.28 | 4.04 | 2.90 |

* The proportion deemed representative of the interest factor.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 6.05 and 4.12 for the second quarter and 6.26 and 4.77 for the first six months of 2002 and 2001, 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.