UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

or

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

For the transition period from to

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ü No ____

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

CONSOLIDATED BALANCE SHEET

(in millions) (unaudited)

	March 31, 2005	December 31, 2004
Assets:		
Investments, financial services assets and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2005 – $338,161; 2004 – $329,838)	**$ 350,400**	$ 344,399
Bonds held to maturity, at amortized cost (market value: 2005 – $21,734; 2004 – $18,791)	**21,477**	18,294
Bond trading securities, at market value (cost: 2005 – $3,562; 2004 – $2,973)	**3,580**	2,984
Equity securities:		
Common stocks available for sale, at market value (cost: 2005 – $9,220; 2004 – $8,569)	**10,896**	9,917
Common stocks trading, at market value (cost: 2005 – $5,947; 2004 – $5,651)	**6,379**	5,894
Preferred stocks, at market value (cost: 2005 – $2,272; 2004 – $2,017)	**2,280**	2,040
Mortgage loans on real estate, net of allowance (2005 – $62; 2004 – $65)	**14,065**	13,146
Policy loans	**7,109**	7,035
Collateral and guaranteed loans, net of allowance (2005 – $16; 2004 – $18)	**2,261**	2,282
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2005 – $6,718; 2004 – $6,390)	**34,550**	32,705
Securities available for sale, at market value (cost: 2005 – $28,652; 2004 – $28,845)	**29,332**	30,448
Trading securities, at market value	**3,485**	3,142
Spot commodities, at market value	**98**	95
Unrealized gain on swaps, options and forward transactions	**20,149**	22,670
Trading assets	**1,372**	3,331
Securities purchased under agreements to resell, at contract value	**32,593**	26,272
Finance receivables, net of allowance (2005 – $573; 2004 – $571)	**24,929**	23,574
Securities lending collateral, at cost (approximates market value)	**52,693**	49,972
Other invested assets	**24,532**	22,527
Short-term investments, at cost (approximates market value)	**22,017**	16,102
Cash	**2,361**	2,009
Total investments, financial services assets and cash	**666,558**	638,838
Investment income due and accrued	**5,653**	5,588
Premiums and insurance balances receivable, net of allowance (2005 – $220; 2004 – $225)	**15,724**	15,137
Reinsurance assets, net	**19,719**	19,958
Deferred policy acquisition costs	**31,536**	29,736
Investments in partially owned companies	**1,469**	1,452
Real estate and other fixed assets, net of accumulated depreciation (2005 – $4,688; 2004 – $4,650)	**6,190**	6,192
Separate and variable accounts	**57,417**	57,741
Goodwill	**8,577**	8,601
Income taxes receivable – current	**–**	95
Other assets	**15,413**	15,322
Total assets	**$ 828,256**	$ 798,660

See Accompanying Notes to Financial Statements.

CONSOLIDATED BALANCE SHEET *(continued)*

(in millions, except share amounts) (unaudited)

	March 31, 2005	December 31, 2004
Liabilities:		
Reserve for losses and loss expenses	**$ 64,061**	$ 62,371
Reserve for unearned premiums	**23,764**	23,094
Future policy benefits for life and accident and health insurance contracts	**108,182**	104,737
Policyholders' contract deposits	**225,860**	216,655
Other policyholders' funds	**10,212**	10,280
Reserve for commissions, expenses and taxes	**4,783**	4,583
Insurance balances payable	**4,307**	3,703
Funds held by companies under reinsurance treaties	**3,137**	3,404
Income taxes payable:		
Current	**667**	–
Deferred	**6,622**	7,042
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	**22,691**	18,919
Securities sold under agreements to repurchase, at contract value	**19,463**	21,264
Trading liabilities	**1,283**	2,304
Securities and spot commodities sold but not yet purchased, at market value	**4,881**	4,866
Unrealized loss on swaps, options and forward transactions	**14,751**	18,132
Trust deposits and deposits due to banks and other depositors	**4,612**	4,248
Commercial paper	**8,477**	6,724
Notes, bonds, loans and mortgages payable	**63,082**	59,663
Commercial paper	**3,479**	2,969
Notes, bonds, loans and mortgages payable	**5,557**	5,499
Liabilities connected to trust preferred stock	**1,489**	1,489
Separate and variable accounts	**57,417**	57,741
Minority interest	**4,960**	4,584
Securities lending payable	**52,693**	49,972
Other liabilities	**28,945**	23,611
Total liabilities	**745,375**	717,854
Preferred shareholders' equity in subsidiary companies	**198**	199
Shareholders' equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2005 – 2,751,327,476; 2004 – 2,751,327,476	**6,878**	6,878
Additional paid-in capital	**1,991**	1,954
Retained earnings	**67,752**	64,393
Accumulated other comprehensive income (loss)	**8,374**	9,593
Treasury stock, at cost; 2005 – 156,420,444; 2004 – 154,904,286 shares of common stock	**(2,312)**	(2,211)
Total shareholders' equity	**82,683**	80,607
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	**$ 828,256**	$ 798,660

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

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

Three Months Ended March 31,	2005	2004
Revenues:		
Premiums and other considerations	**$ 17,682**	$ 15,982
Net investment income	**5,292**	4,575
Realized capital gains (losses)	**88**	115
Other revenues	**4,050**	2,703
Total revenues	**27,112**	23,375
Benefits and expenses:		
Incurred policy losses and benefits	**14,865**	13,597
Insurance acquisition and other operating expenses	**6,804**	5,839
Total benefits and expenses	**21,669**	19,436
Income before income taxes, minority interest and cumulative effect of an accounting change	**5,443**	3,939
Income taxes (benefits):		
Current	**987**	1,322
Deferred	**626**	(153)
	1,613	1,169
Income before minority interest and cumulative effect of an accounting change	**3,830**	2,770
Minority interest	**(146)**	(70)
Income before cumulative effect of an accounting change	**3,684**	2,700
Cumulative effect of an accounting change, net of tax	**–**	(144)
Net income	**$ 3,684**	$ 2,556
Earnings per common share:		
Basic		
Income before cumulative effect of an accounting change	**$ 1.42**	$ 1.04
Cumulative effect of an accounting change, net of tax	**–**	(0.06)
Net income	**1.42**	0.98
Diluted		
Income before cumulative effect of an accounting change	**$ 1.40**	$ 1.03
Cumulative effect of an accounting change, net of tax	**–**	(0.06)
Net income	**1.40**	0.97
Cash dividends per common share	**$ 0.125**	$ 0.065
Average shares outstanding:		
Basic	**2,597**	2,610
Diluted	**2,624**	2,642

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions) (unaudited)

Three Months Ended March 31,	2005	2004
Summary:		
Net cash provided by operating activities	**$ 654**	$ 8,719
Net cash used in investing activities	**(18,801)**	(19,725)
Net cash provided by financing activities	**18,620**	11,802
Change in cumulative translation adjustments	**(121)**	202
Change in cash	**352**	998
Cash at beginning of period	**2,009**	922
Cash at end of period	**$ 2,361**	$ 1,920
Cash flows from operating activities:		
Net income	**$ 3,684**	$ 2,556
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	**5,584**	6,700
Premiums and insurance balances receivable and payable – net	**17**	(670)
Reinsurance assets	**239**	(411)
Deferred policy acquisition costs	**(936)**	(1,081)
Investment income due and accrued	**(65)**	(339)
Funds held under reinsurance treaties	**(267)**	102
Other policyholders’ funds	**(68)**	473
Current and deferred income taxes – net	**1,385**	1,204
Reserve for commissions, expenses and taxes	**200**	443
Other assets and liabilities – net	**(683)**	(544)
Trading assets and liabilities – net	**938**	(672)
Trading securities, at market value	**(343)**	(962)
Spot commodities, at market value	**(3)**	67
Net unrealized (gain) loss on swaps, options and forward transactions	**(860)**	(309)
Securities purchased under agreements to resell	**(6,321)**	1,819
Securities sold under agreements to repurchase	**(1,801)**	388
Securities and spot commodities sold but not yet purchased, at market value	**15**	(231)
Realized capital (gains) losses	**(88)**	(115)
Equity in income of partially owned companies and other invested assets	**(390)**	(325)
Amortization of premium and discount on securities	**113**	74
Depreciation expenses, principally flight equipment	**526**	486
Provision for finance receivable losses	**86**	90
Other – net	**(308)**	(24)
Total adjustments	**(3,030)**	6,163
Net cash provided by operating activities	**$ 654**	$ 8,719

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(in millions) (unaudited)

Three Months Ended March 31,	2005	2004
Cash flows from investing activities:		
Cost of bonds, at market sold	**$ 29,895**	$ 30,088
Cost of bonds, at market matured or redeemed	**2,980**	4,122
Cost of equity securities sold	**2,971**	3,664
Realized capital gains (losses)	**88**	115
Purchases of fixed maturities	**(45,165)**	(48,863)
Purchases of equity securities	**(4,130)**	(4,797)
Mortgage, policy and collateral loans granted	**(1,551)**	(537)
Repayments of mortgage, policy and collateral loans	**575**	539
Sales of securities available for sale	**804**	620
Maturities of securities available for sale	**2,164**	324
Purchases of securities available for sale	**(2,765)**	(2,853)
Sales of flight equipment	**41**	1,080
Purchases of flight equipment	**(2,220)**	(1,843)
Net additions to real estate and other fixed assets	**(188)**	(182)
Sales or distributions of other invested assets	**2,163**	2,171
Investments in other invested assets	**(3,327)**	(3,748)
Change in short-term investments	**301**	1,356
Investments in partially owned companies	**4**	(6)
Finance receivable originations and purchases	**(10,605)**	(5,579)
Finance receivable principal payments received	**9,164**	4,604
Net cash used in investing activities	**$ (18,801)**	$ (19,725)
Cash flows from financing activities:		
Receipts from policyholders' contract deposits	**$ 16,269**	$ 13,093
Withdrawals from policyholders' contract deposits	**(7,149)**	(4,507)
Change in trust deposits and deposits due to banks and other depositors	**364**	50
Change in commercial paper	**2,263**	1,875
Proceeds from notes, bonds, loans and mortgages payable	**16,575**	6,732
Repayments on notes, bonds, loans and mortgages payable	**(13,022)**	(5,297)
Proceeds from guaranteed investment agreements	**4,955**	1,505
Maturities of guaranteed investment agreements	**(1,183)**	(1,428)
Proceeds from common stock issued	**31**	40
Cash dividends to shareholders	**(325)**	(170)
Acquisition of treasury stock	**(166)**	(92)
Other – net	**8**	1
Net cash provided by financing activities	**$ 18,620**	$ 11,802
Supplementary information:		
Taxes paid	**$ 382**	$ 493
Interest paid	**$ 1,147**	$ 1,032

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions) (unaudited)

Three Months Ended March 31,	2005	2004
Comprehensive income:		
Net income	**$ 3,684**	$ 2,556
Other comprehensive income:		
Unrealized (depreciation) appreciation of investments – net of reclassification adjustments	**(2,416)**	4,669
Deferred income tax benefit (expense) on above changes	**1,147**	(1,494)
Foreign currency translation adjustments	**(117)**	202
Applicable income tax benefit on above changes	**18**	2
Net derivative gains (losses) arising from cash flow hedging activities	**385**	(57)
Deferred income tax (expense) benefit on above changes	**(206)**	49
Retirement plan liabilities adjustment, net of tax	**(30)**	(27)
Other comprehensive income (loss)	**(1,219)**	3,344
Comprehensive income	**$ 2,465**	$ 5,900

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Financial Statement Presentation

These statements are unaudited. In the opinion of management, all adjustments consisting only 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 2004 financial statements to conform to their 2005 presentation. For further information, refer to the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2004 (2004 Annual Report on Form 10-K). As more fully described in AIG's 2004 Annual Report on Form 10-K, and AIG's Form 10-Q/A for the quarterly period ended March 31, 2004, AIG restated the accounting for certain transactions and certain relationships for the quarter ended March 31, 2004.

2. Segment Information

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

Operating Segments *(in millions)*	**2005**	2004
Revenues[(a)]:		
General Insurance[(b)]	**$ 11,263**	$ 10,075
Life Insurance & Retirement Services[(c)]	**11,820**	10,523
Financial Services[(d)]	**2,449**	1,788
Asset Management[(e)]	**1,375**	1,032
Other	**205**	(43)
Consolidated	**$ 27,112**	$ 23,375
Operating income[(a)(f)]:		
General Insurance	**$ 1,697**	$ 1,441
Life Insurance & Retirement Services	**2,223**	1,785
Financial Services	**1,043**	545
Asset Management	**526**	353
Other[(g)]	**(46)**	(185)
Consolidated	**$ 5,443**	$ 3,939

(a) Revenues and operating income reflect changes in market or estimated fair value associated with derivatives that do not qualify for hedge accounting pursuant to FAS 133.
(b) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).
(c) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).
(d) Represents interest, lease and finance charges.
(e) Represents management and advisory fees and net investment income with respect to GICs.
(f) Represents income before income taxes, minority interest and cumulative effect of an accounting change.
(g) Represents other income (deductions) – net and other realized capital gains (losses).

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

General Insurance *(in millions)*	**2005**	2004
Revenues:		
Domestic Brokerage Group	**$ 6,289**	$ 5,514
Transatlantic	**982**	972
Personal Lines	**1,172**	1,089
Mortgage Guaranty	**168**	162
Foreign General	**2,646**	2,331
Reclassifications and Eliminations	**6**	7
Total General Insurance	**$ 11,263**	$ 10,075
Operating Income:		
Domestic Brokerage Group	**$ 721***	$ 556
Transatlantic	**114**	117
Personal Lines	**109**	98
Mortgage Guaranty	**104**	96
Foreign General	**643**	568
Reclassifications and Eliminations	**6**	6
Total General Insurance	**$ 1,697**	$ 1,441

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

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

Life Insurance & Retirement Services *(in millions)*	**2005**	2004
Revenues[(a)]:		
Foreign:		
AIA, AIRCO and Nan Shan	**$ 4,167**	$ 3,741
ALICO, AIG Star Life and AIG Edison Life	**3,579**	2,865
Philamlife and Other	**129**	117
Domestic:		
AGLA and AG Life[(b)]	**2,271**	2,094
VALIC, AIG Annuity and AIG SunAmerica[(c)]	**1,674**	1,706
Total Life Insurance & Retirement Services	**$ 11,820**	$ 10,523
Operating Income:		
Foreign:		
AIA, AIRCO and Nan Shan	**$ 687**	$ 491
ALICO, AIG Star Life and AIG Edison Life	**660**	377
Philamlife and Other	**16**	28
Domestic:		
AGLA and AG Life[(b)]	**344**	257
VALIC, AIG Annuity and AIG SunAmerica[(c)]	**516**	632
Total Life Insurance & Retirement Services	**$ 2,223**	$ 1,785

(a) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).
(b) Includes the life operations of AIG Life Insurance Company and American International Life Assurance Company of New York.
(c) "AIG SunAmerica" represents the annuity operations of AIG SunAmerica Life Assurance Company, as well as those of First SunAmerica Life Insurance Company and SunAmerica Life Insurance Company.

2. Segment Information *(continued)*

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

Financial Services *(in millions)*	**2005**	2004
Revenues[(a)]:		
Aircraft Finance[(b)]	**$ 858**	$ 752
Capital Markets[(c)(d)]	**738**	317
Consumer Finance[(e)]	**833**	693
Other	**20**	26
Total Financial Services	**$ 2,449**	$ 1,788
Operating income[(a)]:		
Aircraft Finance	**$ 206**	$ 180
Capital Markets[(d)]	**599**	167
Consumer Finance	**231**	183
Other	**7**	15
Total Financial Services	**$ 1,043**	$ 545

(a) Includes the unrealized gain (loss) attributable to economic hedges not qualifying for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the first three months of 2005 and 2004, the effect was $15 million and $20 million, respectively, in operating income for Aircraft Finance and $449 million and $37 million in both revenues and operating income for Capital Markets.
(b) Revenues were primarily from ILFC aircraft lease rentals.
(c) Revenues, shown net of interest expense, were primarily from hedged proprietary positions entered into in connection with counterparty transactions and the effect of not qualifying for hedge accounting treatment under FAS 133 described in (a) above.
(d) Certain transactions entered into by AIGFP generate tax credits and benefits which are shown in the income tax line on the consolidated statement of income. The amount of tax credits and benefits for the first three months of March 31, 2005 and 2004 are $19 million, and $35 million, respectively.
(e) Revenues were primarily finance charges.

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

(in millions)	**2005**	2004
Revenues:		
Guaranteed investment contracts	**$ 896**	$ 730
Institutional Asset Management[(a)]	**317**	183
Brokerage Services and Mutual Funds	**63**	61
Other	**99**	58
Total Asset Management	**$ 1,375**	$ 1,032
Operating income:		
Guaranteed investment contracts	**$ 257**	$ 223
Institutional Asset Management[(a)(b)]	**159**	55
Brokerage Services and Mutual Funds	**13**	20
Other	**97**	55
Total Asset Management	**$ 526**	$ 353

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

3. Earnings Per Share

Earnings per share of AIG are based on the weighted average number of common shares outstanding during the period.

Computation of Earnings Per Share:

Three Months Ended March 31, *(in millions, except per share amounts)*	**2005**	2004
Numerator for basic earnings per share:		
Income before cumulative effect of an accounting change	**$ 3,684**	$ 2,700
Cumulative effect of an accounting change, net of tax	**–**	(144)

Net income applicable to common stock	**$ 3,684**	$ 2,556
Denominator for basic earnings per share:		
Average shares outstanding used in the computation of per share earnings:		
Common stock issued	**2,752**	2,752
Common stock in treasury	**(155)**	(142)
Average shares outstanding – basic	**2,597**	2,610
Numerator for diluted earnings per share:		
Income before cumulative effect of an accounting change	**$ 3,684**	$ 2,700
Cumulative effect of an accounting change, net of tax	**–**	(144)
Net income applicable to common stock	**3,684**	2,556
Interest on contingently convertible bonds, net of tax *(a)*	**3**	3
Adjusted net income applicable to common stock*(a)*	**$ 3,687**	$ 2,559

3. Earnings Per Share *(continued)*

Three Months Ended March 31, *(in millions, except per share amounts)*	2005	2004
Denominator for diluted earnings per share:		
Average shares outstanding	**2,597**	2,610
Incremental shares from potential common stock:		
Average number of shares arising from outstanding employee stock plans (treasury stock method)[(b)]	**18**	23
Contingently convertible bonds[(a)]	**9**	9
Adjusted average shares outstanding – diluted[(a)]	**2,624**	2,642
Earnings per share:		
Basic:		
Income before cumulative effect of an accounting change	**$ 1.42**	$ 1.04
Cumulative effect of an accounting change, net of tax	**–**	(0.06)
Net income	**$ 1.42**	$ 0.98
Diluted:		
Income before cumulative effect of an accounting change	**$ 1.40**	$ 1.03
Cumulative effect of an accounting change, net of tax	**–**	(0.06)
Net income	**$ 1.40**	$ 0.97

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

(b) Certain shares arising from employee stock plans were not included in the computation of diluted earnings per share where the exercise price of the options exceeded the average market price and would have been antidilutive. The number of shares excluded were 22 million and 8 million for the first three months of 2005 and 2004, respectively.

Pursuant to Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure, an amendment to FASB Statement No. 123” (FAS 148), AIG adopted the “Prospective Method” of accounting for stock-based employee compensation effective January 1, 2003. FAS 148 also requires that AIG disclose the effect of stock-based compensation expense that would have been recognized if the fair value based method had been applied to all the awards vesting in the current period.

The effect with respect to stock-based compensation expense that would have been recognized if the fair value based method had been applied to all the awards vesting in both the first three months of 2005 and 2004 was less than $0.005 per share.

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

4. Benefits Provided by Starr International Company, Inc.

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

Participation in the SICO Plans by any person, and the amount of such participation, has been at the sole discretion of SICO’s Board of Directors. None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting entry to additional paid-in capital reflecting amounts deemed contributed by SICO. The SICO Plans provide that shares currently owned by SICO may be set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant’s voluntary termination of employment with AIG prior to normal retirement age. In addition, SICO’s Board of Directors currently may elect to pay a participant cash in lieu of shares of AIG common stock. See also Note 6(f) herein.

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

Compensation expense with respect to the SICO Plans aggregated $34 million and $14 million for the first three months of 2005 and 2004, respectively.

5. Ownership and Transactions With Related Parties

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

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

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

6. Commitments and Contingent Liabilities

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

(a) AIG and certain of its subsidiaries become parties to derivative financial instruments with market risk resulting from both dealer and end user activities and to reduce currency, interest rate, equity and commodity exposures. These instruments are carried at their estimated fair values in the consolidated balance sheet. The vast majority of AIG's derivative activity is transacted by AIG Financial Products Corp. and its subsidiaries (AIGFP). (See also Note 20 in AIG's 2004 Annual Report on Form 10-K.)

(b) Securities sold, but not yet purchased and spot commodities sold but not yet purchased represent obligations of Capital Markets operations to deliver specified securities and spot commodities at their contracted prices. Capital Markets records a liability to repurchase the securities and spot commodities in the market at prevailing prices.

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP arising from transactions entered into by AIGFP. Net revenues for the three months ended March 31, 2005 and 2004 from Capital Markets operations were $738 million and $317 million, respectively.

(c) At March 31, 2005, International Lease Finance Corporation (ILFC) had committed to purchase 322 new aircraft deliverable from 2005 through 2010 at an estimated aggregate purchase price of $19.5 billion and had options to purchase 6 new aircraft deliverable through 2007 at an estimated aggregate purchase price of $361 million. ILFC will be required to find customers for any aircraft acquired, and it must arrange financing for portions of the purchase price of such equipment.

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

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

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

(f) On May 18, 2005, the AIG Board of Directors passed resolutions (Resolutions) pursuant to which AIG agrees, subject to certain conditions, to (i) make any payment that is not promptly paid with respect to the benefits accrued by current employees of AIG and its subsidiaries under the SICO Plans (as defined in Note 4) and (ii) make any payment to the extent not promptly paid by Starr with respect to amounts that become payable to current employees of AIG and its subsidiaries who are also stockholders of Starr after the giving of a notice of repurchase or redemption under Starr's organizational documents. On June 27, 2005, AIG entered into definitive documentation of these agreements. AIG will accrue approximately $1 million for 2005 for these contingent liabilities.

6. Commitments and Contingent Liabilities *(continued)*

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

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

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

(i) On October 14, 2004, the Office of the Attorney General of the State of New York (NYAG) brought a lawsuit challenging certain insurance brokerage practices related to contingent commissions. Neither AIG nor any of its subsidiaries is a defendant in that action, although two employees of an AIG subsidiary pleaded guilty in connection with the NYAG's investigation in October 2004 and two additional employees of the same subsidiary pleaded guilty in February 2005. AIG has cooperated, and will continue to cooperate, in the investigation. Regulators from several additional states have commenced investigations into the same matters, and AIG expects there will be additional investigations as well. Various parties, including insureds and shareholders, have also asserted putative class action and other claims against AIG or its subsidiaries alleging, among other things, violations of the antitrust and federal securities laws, and AIG expects that additional claims may be made.

Various federal and state regulatory agencies are reviewing certain other transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries.

In February 2005, AIG received subpoenas from the NYAG and the SEC relating to investigations into the use of non-traditional insurance products and certain assumed reinsurance transactions and AIG's accounting for such transactions. The United States Department of Justice and various state regulators are also investigating related issues. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to the subpoenas.

A number of lawsuits have been filed regarding the subject matter of the investigations of insurance brokerage practices and non-traditional insurance products, including derivative actions in New York state courts and civil actions under the federal securities laws and the Employee Retirement Income Security Act (ERISA) in the U.S. district court for the Southern District of New York. These actions are in the early pleadings stage.

In addition, in late 2002, a shareholder derivative action was filed in Delaware Chancery Court alleging breaches of fiduciary duty of loyalty and care against AIG's directors. AIG's Board of Directors appointed a special committee of independent directors to review the complaint and respond to the lawsuit. The special committee has issued a report that concluded that it was not in the best interests of AIG or its shareholders to pursue the litigation and moved the Delaware Chancery Court to terminate the litigation. The Plaintiff filed

6. Commitments and Contingent Liabilities *(continued)*

an amended complaint on May 17, 2005. The amendment includes additional claims of breach of fiduciary duty by current and former directors of AIG based on, among other things, AIG's transactions with reinsurers (including reinsurers in which AIG has an ownership interest) and accounting for these transactions, AIG's broker compensation practices, and AIG's sale of finite insurance products.

On May 26, 2005, the NYAG and the New York Superintendent of Insurance filed a civil complaint against AIG as well as its former Chairman and Chief Executive Officer M.R. Greenberg, and former Vice Chairman and Chief Financial Officer Howard Smith, in the Supreme Court of the State of New York. The complaint asserts claims under New York's Martin Act and Insurance Law, among others, and makes allegations concerning certain of the transactions discussed more fully in the 2004 Annual Report on Form 10-K. The complaint seeks disgorgement, injunctive relief, punitive damages and costs, among other things.

AIG cannot at this time predict the outcome of the matters described above or estimate the potential costs related to these matters and, accordingly, no reserve is being established in AIG's financial statements at this time. In the opinion of AIG management, AIG's ultimate liability for the matters referred to above is not likely to have a material adverse effect on AIG's consolidated financial condition, although it is possible that the effect would be material to AIG's consolidated results of operations for an individual reporting period.

7. Employee Benefits

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

	Pensions			Postretirement		
(In millions)	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
2005						
Components of net period benefit cost:						
Service cost	$ 19	$ 26	$ 45	$ 1	$ 2	$ 3
Interest cost	8	37	45	–	4	4
Expected return on assets	(5)	(41)	(46)	–	–	–
Amortization of prior service cost	(3)	(1)	(4)	–	(2)	(2)
FAS 88 loss due to settlements	1	–	1	–	–	–
Recognized actuarial loss	6	16	22	–	1	1
Net period benefit cost	$ 26	$ 37	$ 63	$ 1	$ 5	$ 6
2004						
Components of net period benefit cost:						
Service cost	$ 15	$ 23	$ 38	$ –	$ 1	$ 1
Interest cost	8	40	48	–	4	4
Expected return on assets	(5)	(43)	(48)	–	–	–
Amortization of prior service cost	(1)	1	–	–	(1)	(1)
Amortization of transitional liability	1	–	1	–	–	–
Recognized actuarial loss	5	14	19	–	–	–
Net period benefit cost	$ 23	$ 35	$ 58	$ –	$ 4	$ 4

8. Recent Accounting Standards

At the March 2004 meeting, the Emerging Issue Task Force (EITF) reached a consensus with respect to Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." On September 30, 2004, the FASB issued FASB Staff Position (FSP) EITF No. 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" delaying the effective date of this guidance until the FASB has resolved certain implementation issues with respect to this guidance. The disclosure requirements of EITF 03-1 were previously adopted by AIG as of December 31, 2003 and reflected in the Annual Report on Form 10-K for that year for investments accounted for under FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." For all other investments within the scope of this Issue, the disclosures are effective for the year ended December 31, 2004.

8. Recent Accounting Standards *(continued)*

At the September 2004 meeting, the EITF reached a consensus with respect to Issue No. 04-8, “Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share.” This Issue addresses when the dilutive effect of contingently convertible debt (Co-Cos) with a market price trigger should be included in diluted earnings per share (EPS). The EITF concluded that these securities should be treated as convertible securities and included in a dilutive EPS calculation (if dilutive), regardless of whether the market price triggers (or other contingent features) have been met. Co-Cos are generally convertible into common shares of the issuer after the common stock has exceeded a predetermined threshold for a specific time period. The predetermined threshold is greater than the conversion price of the debt. The guidance is effective for the year ending December 31, 2004; AIG has applied the guidance retroactively and has restated previously reported EPS. The adoption of Issue No. 04-8 did not have a material effect on AIG’s diluted EPS.

In December 2004, the FASB issued Statement No. 123 (revised 2004) (FAS 123R), “Share-Based Payment.” FAS 123R replaces FASB Statement No. 123 (FAS 123), “Accounting for Stock-Based Compensation,” and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” FAS 123, as originally issued in 1995, established as preferable a fair-value-based method of accounting for share-based payment transactions with employees. On January 1, 2003, AIG adopted the recognition provisions of FAS 123. In April 2005, the Securities and Exchange Commission (SEC) delayed the effective date for FAS 123R until the first fiscal year beginning after June 15, 2005. As a result, AIG expects to adopt the provisions of the revised FAS 123R in the first quarter of 2006. AIG is currently assessing the effect of FAS 123R and believes the effect will not be material to AIG’s financial condition or results of operations.

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

9. Information Provided in Connection with Outstanding Debt

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

(a) American General Corporation (AGC) is a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AGC.

American General Corporation:

Condensed Consolidating Balance Sheet

March 31, 2005 *(in millions)*	**American International Group, Inc. Guarantor**	**AGC Issuer**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Assets:					
Invested assets	$ **1,131**	$ **–**	$ **675,001**	$ **(11,935)**	$ **664,197**
Cash	**150**	**–**	**2,211**	**–**	**2,361**
Carrying value of subsidiaries and partially owned companies, at equity	**83,614**	**25,881**	**15,043**	**(123,069)**	**1,469**
Other assets	**2,803**	**2,691**	**159,807**	**(5,072)**	**160,229**
Total assets	$ **87,698**	$ **28,572**	$ **852,062**	$ **(140,076)**	$ **828,256**
Liabilities:					
Insurance liabilities	$ **391**	$ **–**	$ **443,986**	$ **(71)**	$ **444,306**
Debt	**3,650**	**2,483**	**110,912**	**(12,270)**	**104,775**
Other liabilities	**974**	**4,264**	**195,867**	**(4,811)**	**196,294**
Total liabilities	**5,015**	**6,747**	**750,765**	**(17,152)**	**745,375**
Preferred shareholders' equity in subsidiary companies	**–**	**–**	**198**	**–**	**198**
Total shareholders' equity	**82,683**	**21,825**	**101,099**	**(122,924)**	**82,683**
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	$ **87,698**	$ **28,572**	$ **852,062**	$ **(140,076)**	$ **828,256**

December 31, 2004 *(in millions)*	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	$ 1,394	$ –	$ 647,610	$ (12,175)	$ 636,829
Cash	17	–	1,992	–	2,009
Carrying value of subsidiaries and partially owned companies, at equity	81,610	26,165	12,076	(118,399)	1,452
Other assets	2,753	2,546	154,269	(1,198)	158,370
Total assets	$ 85,774	$ 28,711	$ 815,947	$ (131,772)	$ 798,660
Liabilities:					
Insurance liabilities	$ 405	$ –	$ 428,491	$ (69)	$ 428,827
Debt	3,647	2,482	101,391	(12,257)	95,263
Other liabilities	1,115	4,076	189,779	(1,206)	193,764
Total liabilities	5,167	6,558	719,661	(13,532)	717,854
Preferred shareholders' equity in subsidiary companies	–	–	199	–	199
Total shareholders' equity	80,607	22,153	96,087	(118,240)	80,607
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	$ 85,774	$ 28,711	$ 815,947	$ (131,772)	$ 798,660

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

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2005 *(in millions)*	**American International Group, Inc. Guarantor**	**AGC Issuer**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Operating income	$ (38)*(a)*	$ (37) *(b)*	$ 5,518*(c)*	$ –	$ 5,443*(d)*
Equity in undistributed net income of consolidated subsidiaries	3,552	633	–	(4,185)	–
Dividend income from consolidated subsidiaries	271	–	–	(271)	–
Income taxes (benefits)	101	(13)	1,525	–	1,613
Minority interest	–	–	(146)	–	(146)
Net income (loss)	$ 3,684	$ 609	$ 3,847	$ (4,456)	$ 3,684

Three Months Ended March 31, 2004 *(in millions)*	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	$ 98*(e)*	$ (30) *(f)*	$ 3,871*(g)*	$ –	$ 3,939*(h)*
Equity in undistributed net income of consolidated subsidiaries	2,297	566	–	(2,863)	–
Dividend income from consolidated subsidiaries	322	24	–	(346)	–
Income taxes (benefits)	161	(11)	1,019	–	1,169
Minority interest	–	–	(70)	–	(70)
Cumulative effect of an accounting change, net of tax	–	–	(144)	–	(144)
Net income (loss)	$ 2,556	$ 571	$ 2,638	$ (3,209)	$ 2,556

(a) Includes other income (deductions) – net and other realized capital gains (losses) of $(127) million.
(b) Includes other income (deductions) – net and other realized capital gains (losses) of $(37) million.
(c) Includes other income (deductions) – net and other realized capital gains (losses) of $118 million.
(d) Includes other income (deductions) – net and other realized capital gains (losses) of $(46) million.
(e) Includes other income (deductions) – net and other realized capital gains (losses) of $17 million.
(f) Includes other income (deductions) – net and other realized capital gains (losses) of $(30) million.
(g) Includes other income (deductions) – net and other realized capital gains (losses) of $(172) million.
(h) Includes other income (deductions) – net and other realized capital gains (losses) of $(185) million.

Condensed Consolidating Statements of Cash Flow

Three Months Ended March 31, 2005 *(in millions)*	**American International Group, Inc. Guarantor**	**AGC Issuer**	**Other Subsidiaries**	**Consolidated AIG**
Net cash provided by operating activities	$ 346	$ 155	$ 153	$ 654
Cash flows from investing:				
Invested assets disposed	265	–	50,885	51,150
Invested assets acquired	–	–	(69,763)	(69,763)
Other	(72)	(120)	4	(188)
Net cash used in investing activities	193	(120)	(18,874)	(18,801)
Cash flows from financing activities:				
Change in debts	(34)	1	9,621	9,588
Other	(402)	(36)	9,470	9,032
Net cash provided by (used in) financing activities	(436)	(35)	19,091	18,620
Change in cumulative translation adjustments	30	–	(151)	(121)
Change in cash	133	–	219	352

Cash at beginning of period		**17**		**–**		**1,992**		**2,009**
Cash at end of period	**$**	**150**	**$**	**–**	**$**	**2,211**	**$**	**2,361**

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

Three Months Ended March 31, 2004 *(in millions)*	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 527	$ 468	$ 7,724	$ 8,719
Cash flows from investing:				
Invested assets disposed	315	–	48,362	48,677
Invested assets acquired	(176)	–	(68,044)	(68,220)
Other	(345)	(302)	465	(182)
Net cash used in investing activities	(206)	(302)	(19,217)	(19,725)
Cash flows from financing activities:				
Change in debts	(24)	(147)	3,558	3,387
Other	(192)	(19)	8,626	8,415
Net cash (used in) provided by financing activities	(216)	(166)	12,184	11,802
Change in cumulative translation adjustments	(120)	–	322	202
Change in cash	(15)	–	1,013	998
Cash at beginning of period	19	–	903	922
Cash at end of period	$ 4	$ –	$ 1,916	$ 1,920

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

AIG Liquidity Corp.:

Condensed Consolidating Balance Sheet

March 31, 2005 *(in millions)*	**American International Group, Inc. Guarantor**	**AIG Liquidity Corp.**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Assets:					
Invested assets	**$ 1,131**	**$ ***	**$ 675,001**	**$ (11,935)**	**$ 664,197**
Cash	**150**	*****	**2,211**	**–**	**2,361**
Carrying value of subsidiaries and partially owned companies, at equity	**83,614**	**–**	**40,924**	**(123,069)**	**1,469**
Other assets	**2,803**	*****	**162,498**	**(5,072)**	**160,229**
Total assets	**$ 87,698**	**$ ***	**$ 880,634**	**$ (140,076)**	**$ 828,256**
Liabilities:					
Insurance liabilities	**$ 391**	**$ –**	**$ 443,986**	**$ (71)**	**$ 444,306**
Debt	**3,650**	*****	**113,395**	**(12,270)**	**104,775**
Other liabilities	**974**	*****	**200,131**	**(4,811)**	**196,294**
Total liabilities	**5,015**	*****	**757,512**	**(17,152)**	**745,375**
Preferred shareholders' equity in subsidiary companies	**–**	**–**	**198**	**–**	**198**
Total shareholders' equity	**82,683**	*****	**122,924**	**(122,924)**	**82,683**
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	**$ 87,698**	**$ ***	**$ 880,634**	**$ (140,076)**	**$ 828,256**

** Amounts significantly less than $1 million.*

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

December 31, 2004 *(in millions)*	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	$ 1,394	$ *	$ 647,610	$ (12,175)	$ 636,829
Cash	17	*	1,992	–	2,009
Carrying value of subsidiaries and partially owned companies, at equity	81,610	–	38,241	(118,399)	1,452
Other assets	2,753	*	156,815	(1,198)	158,370
Total assets	$ 85,774	$ *	$ 844,658	$ (131,772)	$ 798,660
Liabilities:					
Insurance liabilities	$ 405	$ –	$ 428,491	$ (69)	$ 428,827
Debt	3,647	*	103,873	(12,257)	95,263
Other liabilities	1,115	*	193,855	(1,206)	193,764
Total liabilities	5,167	*	726,219	(13,532)	717,854
Preferred shareholders' equity in subsidiary companies	–	–	199	–	199
Total shareholders' equity	80,607	*	118,240	(118,240)	80,607
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	$ 85,774	$ *	$ 844,658	$ (131,772)	$ 798,660

** Amounts significantly less than $1 million.*

Condensed Consolidating Statement of Income

Three Months Ended March 31, 2005 ***(in millions)***	**American International Group, Inc. Guarantor**	**AIG Liquidity Corp.**	**Other Subsidiaries**	**Eliminations**	**Consolidated AIG**
Operating income	**$ (38)***(a)*	**$ ***	**$ 5,481***(b)*	**$ –**	**$ 5,443***(c)*
Equity in undistributed net income of consolidated subsidiaries	**3,552**	**–**	**633**	**(4,185)**	**–**
Dividend income from consolidated subsidiaries	**271**	**–**	**–**	**(271)**	**–**
Income taxes	**101**	*****	**1,512**	**–**	**1,613**
Minority interest	**–**	**–**	**(146)**	**–**	**(146)**
Net income (loss)	**$ 3,684**	**$ ***	**$ 4,456**	**$ (4,456)**	**$ 3,684**

** Amounts significantly less than $1 million.*

Three Months Ended March 31, 2004 *(in millions)*	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Eliminations	Consolidated AIG
Operating income	$ 98*(d)*	$ *	$ 3,841*(e)*	$ –	$ 3,939*(f)*
Equity in undistributed net income of consolidated subsidiaries	2,297	–	566	(2,863)	–
Dividend income from consolidated subsidiaries	322	–	24	(346)	–
Income taxes	161	*	1,008	–	1,169
Minority interest	–	–	(70)	–	(70)
Cumulative effect of an accounting change, net of tax	–	–	(144)	–	(144)
Net income (loss)	$ 2,556	$ *	$ 3,209	$ (3,209)	$ 2,556

* *Amounts significantly less than $1 million.*
(a) *Includes other income (deductions) — net and other realized capital gains (losses) of $(127) million.*
(b) *Includes other income (deductions) — net and other realized capital gains (losses) of $81 million.*
(c) *Includes other income (deductions) — net and other realized capital gains (losses) of $(46) million.*

(d) Includes other income (deductions) — net and other realized capital gains (losses) of $17 million.
(e) Includes other income (deductions) — net and other realized capital gains (losses) of $(202) million.
(f) Includes other income (deductions) — net and other realized capital gains (losses) of $(185) million.

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

Condensed Consolidating Statements of Cash Flow

Three Months Ended March 31, 2005 *(in millions)*	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 346	$ *	$ 308	$ 654
Cash flows from investing:				
Invested assets disposed	265	–	50,885	51,150
Invested assets acquired	–	–	(69,763)	(69,763)
Other	(72)	*	(116)	(188)
Net cash used in investing activities	193	*	(18,994)	(18,801)
Cash flows from financing activities:				
Change in debts	(34)	–	9,622	9,588
Other	(402)	*	9,434	9,032
Net cash provided by financing activities	(436)	*	19,056	18,620
Change in cumulative translation adjustments	30	–	(151)	(121)
Change in cash	133	*	219	352
Cash at beginning of period	17	–	1,992	2,009
Cash at end of period	$ 150	$ *	$ 2,211	$ 2,361

* *Amounts significantly less than $1 million.*

Three Months Ended March 31, 2004 *(in millions)*	American International Group, Inc. Guarantor	AIG Liquidity Corp.	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 527	$ *	$ 8,192	$ 8,719
Cash flows from investing:				
Invested assets disposed	315	–	48,362	48,677
Invested assets acquired	(176)	–	(68,044)	(68,220)
Other	(345)	*	163	(182)
Net cash used in investing activities	(206)	*	(19,519)	(19,725)
Cash flows from financing activities:				
Change in debts	(24)	–	3,411	3,387
Other	(192)	*	8,607	8,415
Net cash (used in) provided by financing activities	(216)	*	12,018	11,802
Change in cumulative translation adjustments	(120)	–	322	202
Change in cash	(15)	*	1,013	998
Cash at beginning of period	19	–	903	922
Cash at end of period	$ 4	$ *	$ 1,916	$ 1,920

* *Amounts significantly less than $1 million.*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report 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 AIG's control. These statements may address, among other things, the status and potential future outcome of the current regulatory and civil proceedings against AIG and their potential effect on AIG's businesses, financial position, results of operations, cash flows and liquidity, the effect of the credit rating downgrades on AIG's businesses and competitive position, the unwinding and resolving of various relationships between AIG and Starr and SICO, AIG's strategy for growth, product development, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these 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 this Management's Discussion and Analysis of Financial Condition and Results of Operations. AIG is not under any obligation (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.

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, AIG presents its operations in the way it believes will be most meaningful. Statutory underwriting profit (loss) and combined ratios are presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance used in the insurance industry and thus allow more meaningful comparisons with AIG's insurance competitors. AIG has also incorporated into this discussion a number of cross-references to additional information included throughout this Form 10-Q to assist readers seeking related information on a particular subject.

Restatement of Previously Issued Financial Statements

AIG restated its financial statements for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 in conjunction with filing its 2004 Annual Report on Form 10-K. In connection with the preparation of AIG's consolidated financial statements included in the 2004 Annual Report on Form 10-K, AIG's current management initiated an internal review of AIG's books and records, which was substantially expanded in mid-March 2005. Management believes that the scope and process of its internal review was sufficient to identify issues of a material nature that could affect AIG's financial statements. For further discussion, see the 2004 Annual Report on Form 10-K.

Overview of Operations and Business Results

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

AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and one of the largest life insurance and retirement services operations as well. AIG's Financial Services businesses include commercial aircraft and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services and offers guaranteed investment contracts, also known as funding agreements, (GICs) to institutions and individuals.

AIG's operating performance reflects implementation of various long-term strategies and defined goals in its various operating segments.

A primary goal of AIG in managing its General Insurance operations is to achieve an underwriting profit. To achieve this goal, AIG must be disciplined in its risk selection and premiums must be adequate and terms and conditions appropriate to cover the risk accepted. AIG believes in strict control of expenses.

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

AIG patiently builds relationships in markets around the world where it sees long-term growth opportunities. For example, the fact that AIG has the only wholly-owned foreign life insurance operations in eight cities in China is the result of relationships developed over nearly 30 years. AIG's more recent extensions of operations into India, Vietnam, Russia and other emerging markets reflect the same growth strategy. Moreover, AIG believes in investing in the economies and infrastructures of these countries and growing with them. When AIG companies enter a new jurisdiction, they typically offer both basic protection and savings products. As the economies evolve, AIG's products evolve with them, to more complex and investment-oriented models.

Growth for AIG may be generated both internally and through acquisitions which both fulfill strategic goals and offer adequate return on investment. In recent years, the acquisitions of AIG Star Life and AIG Edison Life have broadened AIG's penetration of the Japanese market through new distribution channels and will result in operating efficiencies as they are integrated into AIG's previously existing companies operating in Japan.

AIG provides leadership on issues of concern to the global and local economies as well as the insurance and financial services industries. In recent years, efforts to reform the tort system and class action litigation procedures, legislation to deal with the asbestos problem and the renewal of the Terrorism Risk Insurance Act have been key issues, while in prior years trade legislation and Superfund had been issues of concern.

The following table summarizes AIG's revenues, income before income taxes, minority interest and cumulative effect of an accounting change and net income for the three months ended March 31, 2005 and 2004:

(in millions)	**2005**	2004
Total revenues	**$ 27,112**	$ 23,375
Income before income taxes, minority interest and cumulative effect of an accounting change	**5,443**	3,939
Net income	**$ 3,684**	$ 2,556

Consolidated Results

The 16.0 percent growth in revenues in the first three months of 2005 was primarily attributable to the growth in net premiums earned from global General Insurance operations as well as growth in both General Insurance and Life Insurance & Retirement Services net investment income and Life Insurance & Retirement Services GAAP premiums.

AIG's income before income taxes, minority interest and cumulative effect of an accounting change increased 38.2 percent in the first three months of 2005 when compared to the same period of 2004. General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management operating income gains were the primary factors for the increase over 2004 in both pretax income and net income.

The following table summarizes the operations of each principal segment for the three months ended March 31, 2005 and 2004. (See also Note 2 of Notes to Financial Statements.)

(in millions)	**2005**	2004
Revenues[(a)]:		
General Insurance[(b)]	**$ 11,263**	$ 10,075
Life Insurance & Retirement Services[(c)]	**11,820**	10,523
Financial Services[(d)]	**2,449**	1,788
Asset Management[(e)]	**1,375**	1,032
Other	**205**	(43)
Consolidated	**$ 27,112**	$ 23,375
Operating Income[(a)(f)]:		
General Insurance	**$ 1,697**	$ 1,441
Life Insurance & Retirement Services	**2,223**	1,785
Financial Services	**1,043**	545
Asset Management	**526**	353
Other[(g)]	**(46)**	(185)
Consolidated	**$ 5,443**	$ 3,939

(a) Revenues and operating income reflect changes in market or estimated fair value associated with derivatives that do not qualify for hedge accounting pursuant to FAS 133.
(b) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).
(c) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).
(d) Represents interest, lease and finance charges.
(e) Represents management and advisory fees and net investment income with respect to GICs.
(f) Represents income before income taxes, minority interest and cumulative effect of an accounting change.
(g) Represents other income (deductions) – net and other realized capital gains (losses).

General Insurance

AIG's General Insurance operations provide property and casualty products and services throughout the world. The increase in General Insurance operating income in the first three months of 2005 compared to the same period of 2004 was primarily attributable to strong growth in operating income with respect to Domestic Brokerage Group's and Foreign General's operations, offset by a decrease in realized capital gains for the segment in the first three months of 2005 compared to the same period of 2004. DBG's operating income included additional losses in the first three months of 2005 resulting from increased labor and material costs related to the 2004 Florida hurricanes.

Life Insurance & Retirement Services

AIG’s Life Insurance & Retirement Services operations provide insurance, financial and investment products throughout the world. Foreign operations provided approximately 60 percent of AIG’s Life Insurance & Retirement Services operating income for the first quarter of 2005.

Life Insurance & Retirement Services operating income increased by 24.5 percent in the first three months of 2005 when compared to the same period of 2004. This increase

resulted from growth in AIG's principal Life Insurance & Retirement Services businesses, and capital gains realized in 2005 rather than the capital losses realized in 2004.

Financial Services

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

Financial Services operating income increased by 91.4 percent in the first three months of 2005 compared to the same period of 2004, primarily due to the fluctuation in earnings resulting from the accounting effect of FAS 133. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations and the effect of not qualifying for hedge accounting treatment under FAS 133 for hedges on securities available for sale and borrowings. Consumer Finance operations increased revenues and operating income, both domestically and internationally.

Asset Management

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

Asset Management operating income increased 49.0 percent in the first three months of 2005 when compared to the same period of 2004 as a result of the upturn in worldwide financial markets and a strong global product portfolio.

Capital Resources

At March 31, 2005, AIG had total consolidated shareholders' equity of $82.68 billion and total consolidated borrowings of $104.78 billion. At that date, $95.26 billion of such borrowings were either not guaranteed by AIG or were AIGFP's matched borrowings under obligations of guaranteed investment agreements (GIAs), liabilities connected to trust preferred stock, or matched notes and bonds payable.

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

Liquidity

At March 31, 2005, AIG's consolidated invested assets included $24.38 billion in cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 2005 amounted to $654 million. The $654 million in consolidated net cash provided by operating activities is net of approximately $8 billion used by AIGFP to purchase securities purchased under agreements to resell and to repurchase securities sold under agreements to repurchase in the ordinary course of AIGFP's business. This operating activity was funded in part by proceeds from security sales under similar repurchase and reverse repurchase agreements, but primarily by AIGFP's financing activities, specifically proceeds from guaranteed investment agreements and notes, bonds, loans and mortgages payable. To date, approximately half of the $8 billion was subsequently invested in securities available for sale. AIG believes that its liquid assets, cash provided by operations and access to short term funding through commercial paper and bank credit facilities will enable it to meet any anticipated cash requirements.

Outlook

From March through June of 2005, the major rating agencies downgraded AIG's ratings in a series of actions. Standard & Poor's, a division of The McGraw-Hill Companies, Inc. (S&P), lowered the long-term senior debt and counterparty ratings of AIG from 'AAA' to 'AA' and changed the rating outlook to negative. Moody's Investors Service (Moody's) lowered AIG's long-term senior debt rating from 'Aaa' to 'Aa2' and changed the outlook to stable. Fitch Ratings (Fitch) downgraded the long-term senior debt ratings of AIG from 'AAA' to 'AA' and placed the ratings on Rating Watch Negative.

The agencies also took rating actions on AIG's insurance subsidiaries. S&P and Fitch lowered to 'AA+' the insurance financial strength ratings of most of AIG's insurance companies. Moody's lowered the insurance financial strength ratings generally to either 'Aa1' or 'Aa2'. A.M. Best downgraded the financial strength ratings for most of AIG's insurance subsidiaries from 'A++' to 'A+' and the issuer credit ratings from 'aa+' to 'aa-'. Many of these companies' ratings remain on a negative watch.

In addition, S&P changed the outlook on ILFC's 'AA-' long-term senior debt rating to negative. Moody's affirmed ILFC's long-term and short-term senior debt ratings ('A1'/'P-1'). Fitch downgraded ILFC's long-term senior debt rating from 'AA-' to 'A+' and placed the rating on Rating Watch Negative and downgraded ILFC's short-term debt rating from 'F1+' to 'F1'. Fitch also placed the 'A+' long-term senior debt ratings of American General Finance Corporation and American General Finance, Inc. on Rating Watch Negative. S&P and Moody's affirmed the long-term and short-term senior debt ratings of American General Finance Corporation at 'A+'/'A-1' and 'A1'/'P-1', respectively.

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

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

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

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

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

- **As a result of the downgrades of AIG's long-term senior debt ratings, AIG has been required to post approximately $1.16 billion of collateral with counterparties to municipal guaranteed investment agreements and financial derivatives transactions.** In the event of a further downgrade, AIG will be required to post additional collateral. It is estimated that, as of the close of business on June 23, 2005, based on AIG's outstanding municipal guaranteed investment agreements and financial derivatives transactions as of such date, a further downgrade of AIG's long-term senior debt ratings to 'Aa3' by Moody's or 'AA-' by S&P would permit counterparties to call for approximately $2.10 billion of additional collateral. Further, additional downgrades could result in requirements for substantial additional collateral, which could have a material effect on how AIG manages its liquidity. The actual amount of additional collateral that AIG would be required to post to counterparties in the event of such downgrades depends on market conditions, the market value of the outstanding affected transactions and other factors prevailing at the time of the downgrade. The requirement to post additional collateral may increase if additional counterparties begin to require credit support from AIG through collateralization agreements. Additional obligations to post collateral will increase the demand on AIG's liquidity.

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

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

AIG Edison Life, acquired in August 2003, adds to the current agency force in Japan, and provides alternative distribution channels including banks, financial advisers, and corporate and government employee relationships. AIG Edison Life's integration into AIG's existing Japanese operations will provide future operating efficiencies. In January 2005, AIG Star Life entered into an agreement with the Bank of Tokyo Mitsubishi, one of Japan's largest banks, to market a multi-currency fixed annuity. Through ALICO, AIG Star Life and AIG Edison, AIG has developed a leadership position in the distribution of annuities through banks. AIG is also a leader in the direct marketing of insurance products through sponsors and in the broad market. AIG also expects continued growth in India, Korea and Vietnam.

Domestically, AIG anticipates continued operating growth in 2005 as distribution channels are expanded and new products are introduced. The home service operation has not met business objectives, although its cash flow has been strong, and domestic group life/health was also weak in 2004. AIG expects restructuring efforts in these businesses to show positive results by early 2006. AIG American General's current ratings remain equal to or higher than many of its principal competitors. Nevertheless, recent events have caused independent producers and distributors of AIG Amer-

ican General's products to be more cautious in placing business with AIG. Therefore, AIG is unable to predict the effect of these issues on AIG's business, including any increase in associated surrender or replacement activity.

In the airline industry, changes in market conditions are not immediately apparent in operating results. Lease rates have firmed considerably, as a result of strong demand spurred by the recovering global commercial aviation market, especially in Asia. Sales have begun to increase, and AIG expects an increasing level of interest from a variety of purchasers. Therefore, AIG believes that the improvements in that market which commenced in 2003 will be gradually reflected in ILFC's results in 2005. In the Capital Markets operations, the integration of AIG Trading Group Inc. and its subsidiaries into the operations of AIGFP created operating efficiencies that will continue to be realized and product synergies that should enhance 2005 results, although quarter to quarter variations are to be expected in this transaction-oriented business. AIG also expects increased contributions to Financial Services revenues and income from its consumer finance operations both domestically and overseas. However, the downgrades of AIG's credit ratings may adversely affect funding costs for AIG and its subsidiaries and AIGFP's ability to engage in derivative transactions and certain structured products. See "Certain Factors Affecting AIG's Business — AIG's Credit Ratings" in Item 1 of Part I of AIG's 2004 Annual Report on Form 10-K.

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

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

Critical Accounting Estimates

AIG considers its most critical accounting estimates those with respect to reserves for losses and loss expenses, future policy benefits for life and accident and health contracts, deferred policy acquisition costs, estimated gross profits for investment-oriented products, fair value determinations for certain Capital Markets assets and liabilities and other than temporary declines in value-investments. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG's results of operations would be directly affected.

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, AIG's critical accounting estimates are discussed in detail. The major categories for which assumptions are developed and used to establish each critical accounting estimate are highlighted below.

Reserves for Losses and Loss Expenses (General Insurance):
- *Loss trend factors:* used to establish expected loss ratios for subsequent accident years based on premium rate adequacy and the projected loss ratio with respect to prior accident years.
- *Expected loss ratios for the latest accident year:* for example, accident year 2004 for the year end 2004 loss reserve analysis. For low frequency, high severity classes such as excess casualty and directors and officers liability (D&O), expected loss ratios generally are utilized for at least the three most recent accident years.
- *Loss development factors:* used to project the reported losses for each accident year to an ultimate amount.

Future Policy Benefits for Life and Accident and Health Contracts (Life Insurance & Retirement Services):
- *Interest rates:* which vary by geographical region, year of issuance and products.
- *Mortality, morbidity and surrender rates:* based upon actual experience by geographical region modified to allow for variation in policy form.

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

Deferred Policy Acquisition Costs (Life Insurance & Retirement Services):
- Recoverability based on current and future expected profitability, which is affected by interest rates, foreign exchange rates, mortality experience, and policy persistency.

Deferred Policy Acquisition Costs (General Insurance):
- Recoverability and eligibility based upon the current terms and profitability of the underlying insurance contracts.

Fair Value Determinations of Certain Assets and Liabilities (Financial Services – Capital Markets):
- *Valuation models:* utilizing factors, such as market liquidity and current interest, foreign exchange and volatility rates.

- AIG attempts to secure reliable and independent current market price data, such as published exchange rates from external subscription services such as Bloomberg or Reuters or third-party broker quotes for use in this model. When such prices are not available, AIG uses an internal methodology, which includes interpolation from verifiable prices from trades occurring on dates nearest to the dates of the transactions.

Other Than Temporary Declines in Value – Investments:

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

- Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine months or longer).
- The occurrence of a discrete credit event resulting in the debtor default, seeking bankruptcy or insolvency protection or voluntary reorganization.
- The possibility of non-realization of a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Operating Review

General Insurance Operations

AIG's General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance both domestically and abroad.

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

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

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

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

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

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

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

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

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

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

As previously noted, AIG believes it should present and discuss its financial information in a manner most meaningful

to its investors. Accordingly, in its General Insurance business, AIG uses certain non-GAAP measures, where AIG has determined these measurements to be useful and meaningful.

A critical discipline of a successful general insurance business is the objective to produce operating income from underwriting exclusive of investment-related income. When underwriting is not profitable, premiums are inadequate to pay for insured losses and underwriting related expenses. In these situations, the addition of general insurance related investment income and realized capital gains may, however, enable a general insurance business to produce operating income. For these reasons, AIG views underwriting profit to be critical in the overall evaluation of performance. Although in and of itself not a Generally Accepted Accounting Principles (GAAP) measurement, AIG believes that underwriting profit is a useful and meaningful disclosure. (See also the discussion under “Liquidity” herein.)

Underwriting profit is measured in two ways: statutory underwriting profit and GAAP underwriting profit.

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

A basic premise of GAAP accounting is the recognition of expenses at the same time revenues are earned, the accounting principle of matching. Therefore, to convert underwriting results to a GAAP basis, acquisition expenses are deferred (deferred policy acquisition costs (DAC)) and amortized over the period the related net premiums written are earned. Accordingly, the statutory underwriting profit has been adjusted as a result of acquisition expenses being deferred as required by GAAP. DAC is reviewed for recoverability, and such review requires management judgment. (See also “Critical Accounting Estimates” herein.)

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

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

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

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

(in millions, except ratios)	**2005**	2004
Net premiums written:		
Domestic General		
DBG	**$ 5,727**	$ 5,355
Transatlantic	**885**	907
Personal Lines	**1,186**	1,119
Mortgage Guaranty	**165**	154
Foreign General	**2,830**	2,500
Total	**$ 10,793**	$ 10,035
Net premiums earned:		
Domestic General		
DBG	**$ 5,574**	$ 4,938
Transatlantic	**888**	893
Personal Lines	**1,120**	1,042
Mortgage Guaranty	**140**	134
Foreign General	**2,416**	2,086
Total	**$ 10,138**	$ 9,093
Underwriting profit (loss):		
Domestic General		
DBG	**$ 6**[(a)]	$ (19)
Transatlantic	**20**	37
Personal Lines	**58**	50
Mortgage Guaranty	**75**	68
Foreign General	**413**	323
Total	**$ 572**	$ 459
Net investment income:		
Domestic General		
DBG	**$ 658**	$ 475
Transatlantic	**85**	72
Personal Lines	**52**	45
Mortgage Guaranty	**28**	29
Intercompany adjustments and eliminations – net	**1**	–
Foreign General	**209**	176

Total	**$ 1,033**	$ 797
Realized capital gains (losses)	**92**	185
Operating income	**$ 1,697**	$ 1,441

(in millions, except ratios)	**2005**	2004
Domestic General:		
Loss Ratio	**77.12(a)**	78.54
Expense Ratio	**19.73**	19.65
Combined Ratio	**96.85**	98.19
Foreign General:		
Loss Ratio	**54.50**	57.75
Expense Ratio(b)	**27.16**	25.35
Combined ratio(b)	**81.66**	83.10
Consolidated:		
Loss Ratio	**71.73(a)**	73.77
Expense Ratio	**21.68**	21.07
Combined Ratio	**93.41**	94.84

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

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

General Insurance Results

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

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

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

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

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

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

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

	2005
Growth in original currency	**6.3%**
Foreign exchange effect	**1.3**
Growth as reported in U.S. dollars	**7.6%**

As previously noted, DBG's results include $118 million of additional losses incurred in the first three months of 2005 resulting from increased labor and material costs related to the 2004 Florida hurricanes. Other effects of catastrophes incurred in the first three months of 2005 and 2004 were insignificant. The effect on losses caused by catastrophes can fluctuate widely from year to year, making comparisons of recurring type business more difficult. With respect to catastrophe losses, AIG believes that it has taken appropriate steps, such as careful exposure selection and obtaining reinsurance coverage, to reduce the effect of the magnitude of possible future losses. The occurrence of one or more catastrophic events of unanticipated frequency or severity, such

as terrorist attack, earthquake or hurricane, that causes insured losses, however, could have a material adverse effect on AIG's results of operations, liquidity or financial condition.

General Insurance net investment income grew in the first three months of 2005 when compared to the same period of 2004. AIG is benefiting from strong cash flow, higher interest rates as well as increased partnership income. Additionally, net investment income was positively affected by the compounding of previously earned and reinvested net investment income. As AIG believes that net premiums written will continue to increase in 2005, AIG expects that cash flow for investment will continue to be strong, resulting in growth in net investment income in 2005.

Realized capital gains and losses resulted from the ongoing investment management of the General Insurance portfolios within the overall objectives of the General Insurance operations. (See the discussion on "Valuation of Invested Assets" herein.)

The contribution of General Insurance operating income to AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change was 31.2 percent in the first three months of 2005 compared to 36.6 percent in the same period of 2004.

Reinsurance

AIG is a major purchaser of reinsurance for its General Insurance operations. AIG insures risks globally, and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. Reinsurance is an important risk management tool to manage transaction and insurance line risk retention at prudent levels set by management. AIG also purchases reinsurance to mitigate its catastrophic exposure. AIG is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs because one or more catastrophe losses could negatively affect AIG's reinsurers and result in an inability of AIG to collect reinsurance recoverables. AIG's reinsurance department evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through the use of state-of-the-art industry recognized program models among other techniques. AIG supplements these models through continually monitoring the risk exposure of AIG's worldwide General Insurance operations and adjusting such models accordingly. While reinsurance arrangements do not relieve AIG from its direct obligations to its insureds, an efficient and effective reinsurance program substantially limits AIG's exposure to potentially significant losses.

AIG's consolidated general reinsurance assets amounted to $18.30 billion at March 31, 2005 and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at March 31, 2005 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2004, approximately 43 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, the majority of these balances were collateralized. The remaining 57 percent of the general reinsurance assets were from authorized reinsurers. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Approximately 90 percent of the balances with respect to authorized reinsurers are from reinsurers rated A (excellent) or better, as rated by A.M. Best, or A (strong) or better, as rated by Standard & Poor's. Through March 31, 2005, these distribution percentages have not changed significantly. These ratings are measures of financial strength.

AIG maintains a reserve for estimated unrecoverable reinsurance, but it has been largely successful in its previous recovery efforts. At December 31, 2004 AIG had allowances for unrecoverable reinsurance approximating $400 million. At that date, AIG had no significant reinsurance recoverables due from any individual reinsurer that was financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

AIG's Reinsurance Security Department conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers, both foreign and domestic. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed and has sufficient financial capacity, and evaluating the local economic environment in which a foreign reinsurer operates. This department also reviews the nature of the risks ceded and the requirements for credit risk mitigants. For example, in AIG's treaty reinsurance contracts, AIG includes provisions that frequently require a reinsurer to post collateral when a referenced event occurs. Furthermore, AIG limits its unsecured exposure to reinsurers through the use of credit triggers, which include, but are not limited to, insurer financial strength rating downgrades, policyholder surplus declines at or below a certain predetermined level or a certain predetermined level of a reinsurance recoverable being reached. In addition, AIG's Credit Risk Committee reviews the credit limits for and concentrations with any one reinsurer.

AIG enters into intercompany reinsurance transactions, primarily through AIRCO, for its General Insurance and Life Insurance operations. AIG enters into these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among AIG's various legal entities. These reinsurance agreements have

been approved by the appropriate regulatory authorities. All material intercompany transactions have been eliminated in consolidation. AIG generally obtains letters of credit in order to obtain statutory recognition of these intercompany reinsurance transactions. At March 31, 2005, approximately $3.3 billion of letters of credit were outstanding to cover intercompany reinsurance transactions with AIRCO or other General Insurance subsidiaries.

At March 31, 2005, the consolidated general reinsurance assets of $18.30 billion include reinsurance recoverables for paid losses and loss expenses of $944 million, $14.24 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves) and ceded reserve for unearned premiums of $3.12 billion. The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated by management. Any adjustments thereto are reflected in income currently. It is AIG's belief that the ceded reserves at March 31, 2005 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

Reserve for Losses and Loss Expenses

The table below classifies as of March 31, 2005 the components of the General Insurance reserve for losses and loss expenses (loss reserves) with respect to major lines of business on a statutory basis*:

(in millions)	
Other liability occurrence	$16,835
Other liability claims made	10,654
Workers compensation	9,612
Auto liability	5,512
Property	4,223
International	3,608
Reinsurance	2,480
Medical malpractice	2,236
Aircraft	1,697
Products liability	1,384
Commercial multiple peril	1,154
Accident and health	1,097
Fidelity/ surety	960
Other	2,609
Total	$64,061

** Presented pursuant to statutory reporting requirements as prescribed by the National Association of Insurance Commissioners.*

These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR and loss expenses on a statutory accounting basis.

At March 31, 2005, General Insurance net loss reserves increased $2.08 billion from the prior year end to $49.83 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance and the discount for future investment income. The table below classifies the components of the General Insurance net loss reserves by business unit as of March 31, 2005.

(in millions)	
DBG[(a)]	$34,383
Personal Lines[(b)]	2,314
Transatlantic	5,062
Mortgage Guaranty	353
Foreign General[(c)]	7,714
Total Net Loss Reserve	$49,826

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

The DBG net loss reserve of $34.38 billion is comprised principally of the business of AIG subsidiaries participating in the American Home/National Union pool (11 companies) and the surplus lines pool (Lexington, Starr Excess Liability Insurance Company and Landmark Insurance Company).

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

the $3.98 billion in undiscounted reserves it assumed from the American Home/National Union pool via this quota share cession. AIRCO also carries approximately $375 million in net loss reserves relating to Foreign General insurance business. These reserves are carried on an undiscounted basis.

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

The companies participating in the American Home/National Union pool have maintained a participation in the business written by AIU for decades. As of March 31, 2005, these AIU reserves carried by participants in the American Home/National Union pool amounted to approximately

$1.95 billion. The remaining Foreign General reserves are carried by AIUO, AIRCO, and other smaller AIG subsidiaries domiciled outside the United States. Statutory filings in the U.S. by AIG companies reflect all the business written by U.S. domiciled entities only, and therefore exclude business written by AIUO, AIRCO, and all other internationally domiciled subsidiaries. The total reserves carried at March 31, 2005 by AIUO and AIRCO were approximately $3.41 billion and $3.74 billion, respectively. AIRCO's $3.74 billion in total general insurance reserves consist of approximately $3.37 billion from business assumed from the American Home/National Union pool and an additional $375 million relating to Foreign General Insurance business.

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

The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated by management. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the General Insurance net loss reserves are adequate to cover all General Insurance net losses and loss expenses as at March 31, 2005. While AIG annually reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not adversely develop and materially exceed AIG's loss reserves as of March 31, 2005. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG's consolidated financial position, although it could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period.

AIG has announced that it will commission a comprehensive independent actuarial review of the loss reserves of its principal property-casualty insurance operations. The review is expected to be completed before AIG reports its full year 2005 financial results.

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

(in millions)	**2005**	2004
Net reserve for losses and loss expenses at beginning of year	**$ 47,747**	$ 36,738
Foreign exchange effect	**28**	222
Losses and loss expenses incurred:		
Current year	**7,032**	6,340
Prior years*	**240**	368
Losses and loss expenses incurred	**7,272**	6,708
Losses and loss expenses paid	**5,221**	4,645
Net reserve for losses and loss expenses at end of period	**$ 49,826**	$ 39,023

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

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

For operations writing short-tail coverages, such as property coverages, the process of recording quarterly loss reserve changes is geared toward maintaining an appropriate reserve level for the outstanding exposure, rather than determining an expected loss ratio for current business. For example, the IBNR reserve required for a class of property business might be expected to approximate 20 percent of the latest year's earned premiums, and this level of reserve would be maintained regardless of the loss ratio emerging in the current quarter. The 20 percent factor is adjusted to reflect changes in rate levels, loss reporting patterns, known exposures to large unreported losses, or other factors affecting the particular class of business.

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

AIG's carried net long-tail loss reserves are tested using loss trend factors that AIG considers most appropriate for each class of business. A variety of actuarial methods and assumptions is normally employed to estimate net losses for long-tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long-tail casualty lines, net loss trend factors approximated five percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms; current and future estimates of monetary inflation and social inflation and increases in litigation and awards. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs recognized.

A number of actuarial assumptions are made in the review of reserves for each line of business. For longer tail lines of business, actuarial assumptions generally are made with respect to the following:

- Loss trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratio for prior accident years.

- Expected loss ratios for the latest accident year (i.e., accident year 2004 for the year end 2004 loss reserve analysis) and, in some cases, for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend (see above) and the effect of rate changes and other quantifiable factors. For low-frequency, high-severity classes such as excess casualty and D&O, expected loss ratios generally are utilized for at least the three most recent accident years.

- Loss development factors which are used to project the reported losses for each accident year to an ultimate basis.

AIG records quarterly changes in loss reserves for each of its many General Insurance profit centers. The overall change in AIG's loss reserves is based on the sum of these profit center level changes. For most profit centers which write longer tail classes of casualty coverage, the process of recording quarterly loss reserve changes involves determining the estimated current loss ratio for each class of coverage. This loss ratio is multiplied by the current quarter's net earned premium for that class of coverage to determine the quarter's total estimated net incurred loss and loss expense. The change in loss reserves for the quarter for each class is thus the difference between the net incurred loss and loss expense, estimated as described above, and the net paid losses and loss expenses in the quarter.

The process of determining the current loss ratio for each class or business segment begins in the profit centers in the latter part of the previous year. The loss ratios determined for each profit center are based on a variety of factors. These include, but are not limited to, the following considerations: prior accident year and policy year loss ratios; actual and anticipated rate changes; actual and anticipated changes in coverage, reinsurance, or mix of business; actual and anticipated changes in external factors affecting results, such as trends in loss costs or in the legal and claims environment. Each profit center's loss ratio for the following year is subject to review by the profit center's management, by actuarial and accounting staffs, and ultimately by senior management. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios based thereon remain appropriate. This process includes a review of the actual claims experience in the quarter, actual rate changes achieved, actual changes in coverage, reinsurance or mix of business, and changes in certain other factors that may affect the loss ratio. When this review suggests that the initially determined loss ratio is no longer appropriate, the loss ratio for current business would be changed to reflect the revised assumptions.

A comprehensive annual loss reserve review is conducted in the fourth quarter of each year for each AIG General Insurance subsidiary. These reviews are conducted in full detail for each class or line of business for each subsidiary, and thus consist of literally hundreds of individual analyses. The purpose of these reviews is to confirm the reasonableness of the reserves carried by each of the individual subsidiaries, and thereby of AIG's overall carried reserves. The reserve analysis for each business class is performed by the actuarial personnel who are most familiar with that class of business. In completing these detailed actuarial reserve analyses, the actuaries are required to make numerous assumptions, including for example the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial method(s) to employ for each business class. Additionally, they must determine the appropriate segmentation of data or segments from which the adequacy of the reserves can be most accurately tested. In the course of these detailed reserve reviews for each business segment, a point estimate of the loss reserve is generally determined. The sum of these point estimates for each of the individual business classes for each subsidiary provides an overall actuarial point estimate of the loss reserve for that subsidiary. The overall actuarial point estimate is compared to the sub-

sidiary's carried loss reserve. If the carried reserve can be supported by actuarial methods and assumptions which are also believed to be reasonable, then the carried reserve would generally be considered reasonable and no adjustment would be considered. The ultimate process by which the actual carried reserves are determined considers not only the actuarial point estimate but a myriad of other factors. Other crucial internal and external factors considered include a qualitative assessment of inflation and other economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environments, underlying policy pricing, terms and conditions, and claims handling. Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

With respect to the 2004 year-end actuarial loss reserve analysis for DBG, the actuaries continued to utilize the modified assumptions which gave additional weight to actual loss development from the more recent years, as identified during the 2002 and 2003 analysis, with appropriate adjustments to account for the additional year of loss experience which emerged in 2004. Although the actuaries continued to use actuarial assumptions that rely on expected loss ratios based on the results of prior accident years, the expected loss ratio assumptions used continue to give far greater weight to the more recent accident year experience than was the case in the prior year-end assumptions. For example, for the excess casualty lead umbrella class of business, 100 percent weight was given to the experience of accident years 1998-2001, with no weight given to the more favorable experience of accident years prior to 1998.

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

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

For the excess casualty class of business the assumed loss cost trend was five percent. Thus, in establishing the expected loss ratios for accident years 2002 through 2004, the loss costs from accident years 1998 through 2001 were trended by this five percent factor per annum. A five percent change in the assumed loss cost trend from each accident year to the next would cause approximately a $600 million change (either positively or negatively) to the net loss and loss expense reserve for this business. For the D&O and related management liability classes of business the assumed loss cost trend was four percent. Thus, in establishing the expected loss ratios for accident years 2002 through 2004, the loss costs from accident years 1997 through 2001 were trended by this four percent factor per annum. A five percent change in this assumed loss cost trend would cause approximately a $500 million change (either positively or negatively) to the net loss and loss expense reserve for such business. For healthcare liability business, including hospitals and other healthcare exposures, a five percent change in the assumed loss cost trend would cause approximately a $150 million change (either positively or negatively) to the loss and loss expense reserve for this business. Actual loss cost trends in the early 1990's were negative for these classes, whereas in the late 1990's loss costs trends ran well into the double digits for each of these three classes. The sharp increase in loss costs in the late 1990's was thus much greater than the five percent changes cited above, and caused significant increases in the overall loss reserve needs for these classes. While changes in the loss cost trend assumptions can have a significant effect on the reserve needs for other smaller classes of liability business, the potential effect of these changes on AIG's overall carried reserves would be much less than for the classes noted above.

For the excess casualty class, if future loss development factors differed by five percent from those utilized in the year-end 2004 loss reserve review, there would be approximately a $450 million change (either positively or negatively) to the overall AIG loss reserve position. The comparable effect on the D&O and related management liability classes would be approximately $200 million (either positively or negatively) if future loss development factors differed by five percent from those utilized in the year-end 2004 loss reserve review. For healthcare liability classes, the effect would be approximately $125 million (either positively or negatively). For workers compensation reserves, the effect of a five percent deviation from the loss development factors utilized in the year-end 2004 reserve reviews would be approximately $750 million (either positively or negatively). Because loss development factors for this class have shown less volatility than higher severity classes such as excess casualty, however, actual changes in loss development factors are expected to be less than five percent. There is some degree of volatility in loss development patterns for other longer tail liability classes as well. However, the potential effect on AIG's reserves would be much less than for the classes cited above.

The calculations of the effect of the five percent change in loss development factors are made by selecting the stage of accident year development where it is believed reasonable for such a deviation to occur. For example, for workers compen-

sation, the $750 million amount is calculated by assuming that each of the most recent eight accident years develop five percent higher than estimated by the current loss development factors utilized in the reserve study, *i.e.* the factor 1.05 is multiplied by the incurred losses (including IBNR and loss expenses) for these accident years.

AIG management believes that using a five percent change in the assumptions for loss cost trends and loss development factors provides a reasonable benchmark for a sensitivity analysis of the reserves of AIG’s most significant lines of general insurance business. For excess casualty business, both the loss cost trend and the loss development factor assumptions are critical. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, as excess casualty is a long-tail class of business, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for the reserves with respect to a number of accident years to be significantly affected by changes in the loss cost trends or loss development factors that were initially relied upon in setting the reserves. These changes in loss trends or loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic phenomena affecting claims. For example, during the lengthy periods during which losses develop for excess casualty, actual changes in loss costs from one accident year to the next have ranged from negative values to double-digit amounts. Thus, there is the potential for significant volatility in loss costs for excess casualty and, although five percent is considered a reasonable benchmark for sensitivity analysis for this business, there is the potential for variations far greater than this amount (either positively or negatively). Likewise, in the judgment of AIG’s actuaries, five percent is considered an appropriate benchmark for sensitivity analysis with respect to the loss development factor assumptions used to test the reserves. It should be noted that the loss cost trend factor for excess casualty was reduced to five percent in the year-end 2004 loss reserve review compared to the 7.5 percent loss trend factor used in the 2003 review for excess casualty. This reduction was made by AIG’s actuaries in response to a significant favorable loss trend that had emerged from accident year 2000 to 2001. This favorable trend appears to be continuing in accident years 2002 and 2003, although these accident years are still immature.

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

For healthcare liability classes, both the loss cost trend and the loss development factor assumptions are critical. The nature of the potential volatility would be analogous to that described above for the excess casualty business. However, AIG’s volume of business in the healthcare classes is much smaller than for excess casualty, hence the potential effect on AIG’s overall reserves is smaller for these classes than for excess casualty. AIG’s healthcare liability business includes both primary and excess exposures.

For workers compensation, the loss development factor assumptions are important. Generally, AIG’s actual historical workers compensation loss development would be expected to provide a reasonably accurate predictor of future loss development. A five percent sensitivity indicator for workers compensation would thus be considered to be toward the high end of potential deviations for this class of business. AIG’s workers compensation reserves include a small portion relating to excess workers compensation coverage. The analysis applicable to excess casualty would apply to these reserves. However, the volume of such business is de minimis compared to the volume of excess casualty. The loss cost trend assumption for workers compensation is not believed to be material with respect to AIG’s loss reserves other than for that portion representing excess workers compensation. This is primarily because AIG’s actuaries are generally able to use loss development projections for all but the most recent accident year’s reserves, so there is limited need to rely on loss cost trend assumptions for workers compensation business.

For casualty business other than the classes noted above, there is generally some potential for deviation in both the loss cost trend and loss development factor selections. However,

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

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

Asbestos and Environmental Reserves

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

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

The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage and an absolute asbestos exclusion was also implemented. However, AIG currently underwrites environmental impairment liability insurance on a claims-made basis and has excluded such claims from the analysis herein.

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

Estimation of asbestos and environmental claims loss reserves is a subjective process and reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors.

Significant factors which affect the trends that influence the asbestos and environmental claims estimation process are the inconsistent court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving, and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties.

Due to this uncertainty, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims. Such future development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. If the asbestos and environmental reserves develop deficiently, such deficiency would have an adverse effect on AIG's future results of operations. AIG does not discount asbestos and environmental reserves.

With respect to known asbestos and environmental claims, AIG established over a decade ago specialized toxic tort and environmental claims units, which investigate and adjust all such asbestos and environmental claims. These units evaluate these asbestos and environmental claims utilizing a claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, AIG generally evaluates exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques have to be supplemented by subjective considerations including management judgment. Each claim is reviewed at least semi-annually utilizing the aforementioned approach and adjusted as necessary to reflect the current information.

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

With respect to asbestos claims handling, AIG's specialized claims staff operates to mitigate losses through proactive handling, supervision and resolution of asbestos cases. Thus, while AIG has resolved all claims with respect to miners and major manufacturers (Tier One), its claims staff continues to operate under the same proactive philosophy to resolve claims involving accounts with products containing asbestos

(Tier Two), products containing small amounts of asbestos, companies in the distribution process, and parties with remote, ill defined involvement in asbestos (Tiers Three and Four). Through its commitment to appropriate staffing, training, and management oversight of asbestos cases, AIG mitigates to the extent possible its exposure to these claims.

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

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

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

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

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

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

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

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

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

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

1. *Actual calendar experience for past ten years, five years, three years, and one year.* AIG experienced consistent adverse development on its carried asbestos and environmental reserves over the years. The net carried reserves from ten years ago ran off $1.45 billion deficient; from five years ago $430 million deficient; from three years ago $350 million deficient; and from one year ago $150 million deficient. Thus the reserves consistently produced adverse development per year, with no evidence of recent improvement. These figures are prior to the year-end 2004 reserve increase.

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

2. *Input from claims officers on latest year events.* DBG’s claims officers observed an increasing trend toward adverse claims experience in the layers underlying its excess

attachment points for a number of Tier Two claims, increasing the probability of further adverse loss developments going forward. They also noted the emergence of several asbestos non-products cases recently, raising a concern that asbestos non-products cases could become a more serious problem in the future.

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

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

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

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

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

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

- The long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;

- The increase in the volume of claims by currently unimpaired plaintiffs;

- Claims filed under the non-aggregate premises or operations section of general liability policies;

- The number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;

- Diverging legal interpretations;

- With respect to environmental claims, the difficulty in estimating the allocation of remediation cost among various parties; and

- The possibility of federal legislation that would address the asbestos and environmental issue.

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

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

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

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

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

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

	2005			2004		
	Asbestos	**Environmental**	**Combined**	Asbestos	Environmental	Combined
Claims at beginning of year	**7,575**	**8,216**	**15,791**	7,474	8,852	16,326
Claims during year:						
Opened	**259**	**759**	**1,018**	201	967	1,168
Settled	**(19)**	**(52)**	**(71)**	(60)	(50)	(110)
Dismissed or otherwise resolved	**(130)**	**(879)**	**(1,009)**	(229)	(856)	(1,085)
Claims at end of period	**7,685**	**8,044**	**15,729**	7,386	8,913	16,299

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

asbestos and environmental reserves and payments and the resultant survival ratio. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

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

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

Life Insurance & Retirement Services Operations

AIG's Life Insurance & Retirement Services subsidiaries offer a wide range of insurance and retirement savings products both domestically and abroad. Insurance-oriented products consist of individual and group life, payout annuities, endowment and accident and health policies. Retirement savings products consist generally of fixed and variable annuities. (See also Note 2 of Notes to Financial Statements.)

Domestically, AIG's Life Insurance & Retirement Services operations offer a broad range of protection products, including life insurance, group life and health products, including disability income products and payout annuities, which include single premium immediate annuities, structured settlements and terminal funding annuities. Home service operations include an array of life insurance, accident and health, and annuity products sold through career agents. In addition, home service includes a small block of run-off property and casualty coverage. Retirement services include group retirement products, individual fixed and variable annuities sold through banks, broker dealers and exclusive sales representatives, and annuity runoff operations which include previously-acquired "closed blocks" and other fixed and variable annuities largely sold through distribution relationships that have been discontinued.

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

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

(in millions)	2005	2004
GAAP premiums:		
Domestic Life:		
Life insurance	**$ 512**	$ 430
Home service	**204**	206
Group life/health	**251**	268
Payout annuities[(a)]	**397**	374
Total	**1,364**	1,278
Domestic Retirement Services:		
Group retirement products	**84**	76
Individual fixed annuities	**20**	13
Individual variable annuities	**112**	100
Individual annuities-runoff[(b)]	**23**	20
Total	**239**	209
Total Domestic	**1,603**	1,487
Foreign Life:		
Life insurance	**4,093**	3,860
Personal accident & health	**1,221**	1,029
Group products	**517**	415
Total	**5,831**	5,304
Foreign Retirement Services:		
Individual fixed annuities	**84**	85
Individual variable annuities	**26**	13
Total	**110**	98
Total Foreign	**5,941**	5,402
Total GAAP premiums	**$ 7,544**	$ 6,889
Net investment income:		
Domestic Life:		
Life insurance	**$ 333**	$ 341
Home service	**146**	151
Group life/health	**32**	31
Payout annuities	**210**	199
Total	**721**	722
Domestic Retirement Services:		
Group retirement products	**549**	542
Individual fixed annuities	**827**	758
Individual variable annuities	**58**	55
Individual annuities-runoff[(b)]	**254**	276
Total	**1,688**	1,631
Total Domestic	**2,409**	2,353
Foreign Life:		
Life insurance	**1,160**	1,004
Personal accident & health	**54**	42
Group products	**131**	105
Intercompany adjustments	**(8)**	(4)

Total		**1,337**		1,147
Foreign Retirement Services:				
Individual fixed annuities		**377**		199
Individual variable annuities		**136**		79
Total		**513**		278
Total Foreign		**1,850**		1,425
Total net investment income	**$**	**4,259**	$	3,778
Pricing net investment gains[(c)]		**81**		78
Realized capital gains (losses)		**(64)**		(222)
Total realized gains (losses)[(c)]		**17**		(144)
Total operating income	**$**	**2,223**	$	1,785
Life insurance in-force[(d)]:				
Domestic	**$**	**760,104**	$	772,251
Foreign		**1,084,529**		1,085,843
Total	**$**	**1,844,633**	$	1,858,094

(a) Includes structured settlements, single premium immediate annuities and terminal funding annuities.

(b) Represents runoff annuity business sold through discontinued distribution relationships.

(c) For purposes of this presentation, pricing net investment gains are segregated as a component of total realized gains (losses). They represent certain amounts of realized capital gains where gains are an inherent element in pricing certain life products in some foreign countries.

(d) Amounts presented were as at March 31, 2005 and December 31, 2004. The decline in Domestic in-force was due to the non-renewal of a single large group life case of $36 billion. Foreign in-force includes Tata AIG Life Insurance Company, Ltd.

AIG's Life Insurance & Retirement Services subsidiaries report their operations through the following operating units: Domestic Life — AIG American General, including American

General Life Insurance Company (AG Life), USLIFE and AGLA; Domestic Retirement Services — VALIC, AIG Annuity and AIG SunAmerica; Foreign Life — ALICO, AIG Edison Life, AIG Star Life, AIA, Nan Shan and Philamlife.

Life Insurance & Retirement Services Results

The increase in operating income in the first three months of 2005 when compared to the same period of 2004 was caused in part by strong growth overseas, and realized capital gains in 2005 rather than the realized capital losses in 2004.

Life Insurance & Retirement Services GAAP premiums grew in the first three months of 2005 when compared with the same period in 2004. AIG’s Domestic Life operations had continued strong growth in term and universal life sales and good performance from the independent distribution channels. Payout annuities also had strong growth. The domestic group business is below AIG’s growth standards, largely because several accounts where pricing was unacceptable were not renewed and loss experience was higher than anticipated. Restructuring efforts in this business are focused on new product introductions, cross selling and other growth strategies. AGLA, the home service business, is diversifying product offerings, enhancing the capabilities and quality of the sales force and broadening the markets served beyond those historically serviced in an effort to accelerate growth.

Domestic Retirement Services businesses faced a challenging environment in the first three months of 2005, as deposits declined approximately nine percent compared to the same period in 2004 and operating income for the retirement services businesses remained relatively flat when compared with the first three months of 2004. The sales environment for the first three months of 2005 for individual variable annuities was unfavorably affected by the combination of weak equity market performance and the cumulative effect of more restrictive regulatory compliance procedures imposed by the broker-dealer and bank distributors in recent periods.

AIG’s domestic fixed annuity business has been affected by a significant flattening of the treasury yield curve over the past several quarters, which has affected sales as yields on competing products, such as bank CDs, approach those available on AIG’s fixed annuities. There are some indications that negative press coverage of AIG has adversely affected surrenders and withdrawals of fixed annuities. In addition, surrenders have increased from prior year levels as annuities sold in 2000 can now be surrendered without charges, and as a result of the competitive interest rate environment. The combination of reduced sales and increased surrenders and withdrawals resulted in net flows 21 percent lower than prior year net flows. AIG expects that net flows will remain lower than in prior years as long as an environment of poor equity market performance and the yield curve remains flat.

The majority of the growth in Life Insurance & Retirement Services GAAP premiums in Foreign Life operations was attributable to the life insurance, personal accident & health, and group products lines of business. Globally, AIG’s deep and diverse distribution, which includes bancassurance, worksite marketing, direct marketing and strong agency organizations, provides a powerful platform for growth. This growth was most significant in Southeast Asia where AIG maintains significant market share established by its strong agency force, and in Japan, where AIG has benefited from a flight to quality and development of multiple distribution channels. In light of AIG’s recent credit rating downgrades, it is unclear whether this flight to quality will continue to benefit AIG. Also in Japan, AIG Edison Life’s back office operations are being integrated successfully into AIG’s life operations. AIG Star Life is growing first year premiums as a result of new product introductions and an expanded agency force, and is benefiting from more successful conservation of in-force business. The Foreign Retirement Services business continues its strong growth based upon its success in Japan and Korea by expanding its extensive distribution network and leveraging AIG’s product expertise. AIG is introducing annuity products in new markets. In January 2005, AIG Star Life entered into an agreement with the Bank of Tokyo Mitsubishi, one of Japan’s largest banks, to market a multi-currency fixed annuity.

Foreign Life Insurance & Retirement Services operations produced 78.8 percent and 78.4 percent of Life Insurance & Retirement Services GAAP premiums in the first three months of 2005 and 2004, respectively.

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of Life Insurance & Retirement Services GAAP premiums.

	2005
Growth in original currency	**6.1%**
Foreign exchange effect	**3.4**
Growth as reported in U.S. dollars	**9.5%**

Under U.S. GAAP, deposits and certain other consideration received under deferred annuity (variable and fixed) and universal life contracts are not included as GAAP premiums.

The growth in net investment income in the first three months of 2005 was attributable to both foreign and domestic invested new cash flow for investment. Additionally, net investment income was positively affected by the compounding of previously earned and reinvested net investment income.

Life Insurance & Retirement Services investment portfolios are managed within the overall objectives of the Life Insurance & Retirement Services operations. AIG subsidiaries invest in certain limited liability companies that invest in synthetic fuel production facilities as a means of generating income tax credits. Net investment income includes operating

losses of approximately $37 million and $30 million, respectively, for the first three months of 2005 and 2004 and income taxes includes tax credits and benefits of approximately $54 million and $40 million, respectively, for the first three months of 2005 and 2004 from these investments.

The contribution of Life Insurance & Retirement Services operating income to AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change amounted to 40.8 percent in the first three months of 2005, compared to 45.3 percent in the same period of 2004.

Underwriting and Investment Risk

The risks associated with life and accident and health products are underwriting risk and investment risk. The risk associated with the financial and investment contract products is primarily 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. The emergence of significant adverse experience would require an adjustment to DAC and benefit reserves that could have a substantial effect on AIG's results of operations.

AIG's Foreign Life companies generally limit their maximum underwriting exposure on life insurance of a single life to approximately $1.7 million of coverage and AIG's Domestic Life companies generally limit their maximum underwriting exposure on life insurance of a single life to $5 million of coverage by using yearly renewable term reinsurance. (See also the discussion under "Liquidity" herein.)

AIRCO acts primarily as an internal reinsurance company for AIG's foreign life operations. This facilitates insurance risk management (retention, volatility, concentrations) and capital planning locally (branch and subsidiary). It also allows AIG to pool its insurance risks and purchase reinsurance more efficiently at a consolidated level and manage global counterparty risk and relationships.

AIG's domestic Life Insurance and Retirement Services operations utilize internal and third-party reinsurance relationships to manage insurance risks and to facilitate capital management strategies. Pools of highly-rated third-party reinsurers are utilized to manage net amounts at risk in excess of retention limits. AIG's domestic life insurance companies also cede excess, non-economic reserves carried on a statutory-basis only on certain term and universal life insurance policies and certain fixed annuities to AIG Life of Bermuda Ltd., a wholly owned Bermuda reinsurer.

AIG generally obtains letters of credit in order to obtain statutory recognition of these intercompany reinsurance transactions. For this purpose, AIG entered into a $2.5 billion syndicated letter of credit facility in December 2004. Letters of credit totaling $2.17 billion was outstanding as of December 31, 2004, and all $2.5 billion was outstanding as of March 31, 2005. The letter of credit facility has a ten-year term, but the facility can be reduced or terminated by the lenders beginning after seven years.

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. (See also the discussion under "Liquidity" herein.)

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 necessary rebalancing of the invested assets to the policy and contract claims does not occur, a demand could be placed upon liquidity. (See also the discussion under "Liquidity" herein.)

AIG actively manages the asset-liability relationship in its foreign operations, as it has been doing throughout AIG's history, even though certain territories lack qualified long-term investments or certain local regulatory authorities may impose investment restrictions. For example, in Japan and several Southeast Asian countries, 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. 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.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

Certain foreign jurisdictions, including Japan, have limited long-dated bond markets and AIG may use alternative investments, including equities, real estate and foreign currency denominated fixed income instruments to extend the effective duration and increase the yield of the investment portfolio to more closely match the requirements of the policyholder liabilities and DAC recoverability, particularly in Taiwan, where Nan Shan has approximately 30 percent of invested assets in foreign currencies. Using foreign currency denominated investments to support policyholder liabilities could increase the risk to and volatility of cash flows and income. AIG actively manages this risk through regular monitoring and selected hedging strategies.

AIG actively manages the asset-liability relationship in its domestic operations. This relationship is more easily man-

aged through the 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 appropriate 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. In addition, the absence of long-dated fixed income instruments in certain markets may preclude a matched asset-liability position in those markets.

A number of guaranteed benefits are offered on certain variable life and variable annuity products.

DAC for life insurance and retirement services products arises from the deferral of those costs that vary with, and are directly related to, the acquisition of new or renewal business. Policy acquisition costs for life insurance products are generally deferred and amortized over the premium paying period of the policy. Policy acquisition costs which relate to universal life and investment-type products, including variable and fixed annuities (investment-oriented products) are deferred and amortized, with interest, as appropriate, in relation to the historical and future incidence of estimated gross profits to be realized over the estimated lives of the contracts. With respect to universal life and investment-oriented products, AIG's policy, as appropriate, has been to adjust amortization assumptions for DAC when estimates of current or future gross profits to be realized from these contracts are revised. With respect to variable annuities sold domestically (representing the vast majority of AIG's variable annuity business), the assumption for the long-term annual net growth rate of the equity markets used in the determination of DAC amortization is approximately ten percent. A methodology referred to as "reversion to the mean" is used to maintain this long-term net growth rate assumption, while giving consideration to short-term variations in equity markets. Estimated gross profits include investment income and gains and losses on investments less interest required as well as other charges in the contract less actual mortality and expenses. Current experience and changes in the expected future gross profits are analyzed to determine the effect on the amortization of DAC. The estimation of projected gross profits requires significant management judgment. The elements with respect to the current and projected gross profits are reviewed and analyzed quarterly and are adjusted appropriately.

AIG's variable annuity earnings will be affected by changes in market returns because separate account revenues, primarily composed of mortality and expense charges and asset management fees, are a function of asset values.

DAC for both insurance-oriented and investment-oriented products as well as retirement services products are subject to review for recoverability, which involve estimating the future profitability of current business. This review also involves significant management judgment. If the actual emergence of future profitability were to be substantially different than that estimated, AIG's results of operations could be significantly affected in future periods.

Insurance and Asset Management Invested Assets

AIG's investment strategy is to invest primarily 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 maturity investments to maximize the yields at the date of purchase. With respect to Life Insurance & Retirement Services, AIG's strategy is to produce cash flows required to meet maturing insurance liabilities. (See also the discussion under "Operating Review: Life Insurance & Retirement Services Operations" herein.) AIG invests in equities for various reasons, including diversifying its overall exposure to interest rate risk. Available for sale bonds and 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 accumulated other comprehensive income. Generally, insurance regulations restrict the types of assets in which an insurance company may invest. 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.

The following tables summarize the composition of AIG's insurance and asset management invested assets by segment, at March 31, 2005 and December 31, 2004:

March 31, 2005 (dollars in millions)	General Insurance	Life Insurance & Retirement Services	Asset Management	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution Foreign
Fixed maturities:							
Available for sale, at market value	**$ 43,158**	**$ 266,288**	**$ 39,604**	**$ 349,050**	**66.4%**	**59.8%**	**40.2%**
Held to maturity, at amortized cost	**21,477**	**–**	**–**	**21,477**	**4.1**	**100.0**	**–**
Trading securities, at market value	**–**	**658**	**2,922**	**3,580**	**0.7**	**0.8**	**99.2**
Equity securities:							
Common stocks, at market value	**4,211**	**12,599**	**266**	**17,076**	**3.2**	**20.3**	**79.7**
Preferred stocks, at market value	**1,541**	**729**	**–**	**2,270**	**0.5**	**87.9**	**12.1**
Mortgage loans on real estate, policy and collateral loans	**22**	**17,427**	**5,516**	**22,965**	**4.4**	**65.4**	**34.6**
Short-term investments, including time deposits, and cash	**2,431**	**10,749**	**10,563**	**23,743**	**4.5**	**48.2**	**51.8**
Real estate	**586**	**3,027**	**324**	**3,937**	**0.7**	**23.9**	**76.1**
Investment income due and accrued	**943**	**4,209**	**482**	**5,634**	**1.1**	**57.6**	**42.4**
Securities lending collateral	**5,519**	**37,074**	**10,100**	**52,693**	**10.0**	**85.1**	**14.9**
Other invested assets	**6,542**	**7,269**	**9,203**	**23,014**	**4.4**	**87.6**	**12.4**
Total	**$ 86,430**	**$ 360,029**	**$ 78,980**	**$ 525,439**	**100.0%**	**63.0%**	**37.0%**

December 31, 2004 (dollars in millions)	General Insurance	Life Insurance & Retirement Services	Asset Management	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution Foreign
Fixed maturities:							
Available for sale, at market value	$ 44,376	$ 259,602	$ 39,077	$ 343,055	68.4%	61.2%	38.8%
Held to maturity, at amortized cost	18,294	–	–	18,294	3.6	100.0	–
Trading securities, at market value	–	600	2,384	2,984	0.6	1.2	98.8
Equity securities:							
Common stocks, at market value	4,165	11,280	177	15,622	3.1	21.9	78.1
Preferred stocks, at market value	1,466	565	–	2,031	0.4	91.9	8.1
Mortgage loans on real estate, policy and collateral loans	22	16,858	5,093	21,973	4.4	65.6	34.4
Short-term investments, including time deposits, and cash	2,113	5,515	9,679	17,307	3.4	37.1	62.9
Real estate	592	3,007	326	3,925	0.8	22.8	77.2
Investment income due and accrued	1,023	4,041	461	5,525	1.1	57.5	42.5
Securities lending collateral	4,889	35,726	9,357	49,972	10.0	85.3	14.7
Other invested assets	5,604	7,154	8,316	21,074	4.2	86.8	13.2
Total	$ 82,544	$ 344,348	$ 74,870	$ 501,762	100.0%	63.7%	36.3%

Credit Quality

At March 31, 2005, approximately 62 percent of the fixed maturities investments were domestic securities. Approximately 33 percent of such domestic securities were rated AAA by one or more of the principal rating agencies. Approximately six percent were below investment grade or not rated.

A significant portion of the foreign fixed income portfolio is rated by Moody's, S&P or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At March 31, 2005, approximately 20 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 four percent were below investment grade or not rated at that date. A large portion of the foreign 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.

Valuation of Invested Assets

AIG has the ability to hold any fixed maturity security to its stated maturity, including those fixed maturity securities classified as available for sale. Therefore, the decision to sell any such fixed maturity security classified as available for sale reflects the judgment of AIG's management that the security

sold is unlikely to provide, on a relative value basis, as attractive a return in the future as alternative securities entailing comparable risks. With respect to distressed securities, the sale decision reflects management's judgment that the risk-discounted anticipated ultimate recovery is less than the value achievable on sale.

The valuation of invested assets involves obtaining a market value for each security. The source for the market value is generally from market exchanges or dealer quotations, with the exception of nontraded securities.

If AIG chooses to hold a security, it evaluates the security for an impairment in valuation. As a matter of policy, the determination that a security has incurred an other-than-temporary decline in value and the amount of any loss recognition requires the judgment of AIG's management and a continual review of its investments.

In general, a security is considered a candidate for impairment if it meets any of the following criteria:

- Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine months or longer);
- The occurrence of a discrete credit event resulting in (i) the issuer defaulting on a material outstanding obligation; or (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for the court supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or
- In the opinion of AIG's management, it is possible that AIG may not realize a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Once a security has been identified as other-than-temporarily impaired, the amount of such impairment is determined by reference to that security's contemporaneous market price and recorded as a charge to earnings.

As a result of these policies, AIG recorded impairment losses, net of taxes, of $92 million and $79 million in the first three months of 2005 and 2004, respectively.

No impairment charge with respect to any one single credit was significant to AIG's consolidated financial condition or results of operations, and no individual impairment loss exceeded 1.0 percent of consolidated net income for the first three months of 2005.

Excluding the other-than-temporary impairments noted above, the changes in market value for AIG's available for sale portfolio, which constitutes the vast majority of AIG's investments, were recorded in accumulated other comprehensive income as unrealized gains or losses, net of tax.

At March 31, 2005, the fair value of AIG's fixed maturities and equity securities aggregated to $395.3 billion. At March 31, 2005, aggregate unrealized gains after taxes for fixed maturity and equity securities were $10.9 billion. At March 31, 2005, the aggregate unrealized losses after taxes of fixed maturity and equity securities were approximately $1.8 billion.

The effect on net income of unrealized losses after taxes will be further mitigated upon realization, because certain realized losses will be charged to participating policyholder accounts, or realization will result in current decreases in the amortization of certain deferred policy acquisition costs.

At March 31, 2005, unrealized losses for fixed maturity securities and equity securities did not reflect any significant industry concentrations.

The amortized cost of fixed maturities available for sale in an unrealized loss position at March 31, 2005, by contractual maturity, is shown below:

(in millions)	Amortized Cost
Due in one year or less	$ 3,075
Due after one year through five years	23,137
Due after five years through ten years	38,423
Due after ten years	43,305
Total	$ 107,940

In the three months ended March 31, 2005, the pretax realized losses incurred with respect to the sale of fixed maturities and equity securities were $419 million. The aggregate fair value of securities sold was $13.4 billion, which was approximately 99 percent of amortized cost. The average period of time that securities sold at a loss during the three months ended March 31, 2005 were trading continuously at a price below book value was approximately four months.

At March 31, 2005, aggregate pretax unrealized gains were $16.7 billion, while the pretax unrealized losses with respect to investment grade bonds, below investment grade bonds and equity securities were $2.1 billion, $450 million and $248 million, respectively. Aging of the pretax unrealized losses with respect to these securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the market value is less than amortized cost or cost), including the number of respective items, was as follows:

Aging (dollars in millions)	Less than or equal to 20% of Cost[(a)] Cost[(a)]	Unrealized Loss	Items	Greater than 20% to 50% of Cost[(a)] Cost[(a)]	Unrealized Loss	Items	Greater than 50% of Cost[(a)] Cost[(a)]	Unrealized Loss	Items	Total Cost[(a)]	Unrealized Loss[(b)]	Items
Investment grade bonds												
0-6 months	$ 71,953	$ 1,012	7,008	$ 19	$ 7	3	$ 2	$ 2	8	$ 71,974	$ 1,021	7,019
7-12 months	15,887	409	1,563	29	6	36	–	–	2	15,916	415	1,601
>12 months	13,774	659	1,617	85	15	6	6	4	2	13,865	678	1,625
Total	$ 101,614	$ 2,080	10,188	$ 133	$ 28	45	$ 8	$ 6	12	$ 101,755	$ 2,114	10,245
Below investment grade bonds												
0-6 months	$ 3,928	$ 145	943	$ 193	$ 58	32	$ 11	$ 8	15	$ 4,132	$ 211	990
7-12 months	731	48	141	38	10	27	3	2	14	772	60	182
>12 months	961	85	251	310	87	97	10	7	13	1,281	179	361
Total	$ 5,620	$ 278	1,335	$ 541	$ 155	156	$ 24	$ 17	42	$ 6,185	$ 450	1,533
Total bonds												
0-6 months	$ 75,881	$ 1,157	7,951	$ 212	$ 65	35	$ 13	$ 10	23	$ 76,106	$ 1,232	8,009
7-12 months	16,618	457	1,704	67	16	63	3	2	16	16,688	475	1,783
>12 months	14,735	744	1,868	395	102	103	16	11	15	15,146	857	1,986
Total	$ 107,234	$ 2,358	11,523	$ 674	$ 183	201	$ 32	$ 23	54	$ 107,940	$ 2,564	11,778
Equity securities												
0-6 months	$ 2,245	$ 100	826	$ 126	$ 31	72	$ 7	$ 6	47	$ 2,378	$ 137	945
7-12 months	311	19	162	216	88	70	2	2	45	529	109	277
>12 months	23	1	15	3	1	3	–	–	10	26	2	28
Total	$ 2,579	$ 120	1,003	$ 345	$ 120	145	$ 9	$ 8	102	$ 2,933	$ 248	1,250

(a)For bonds, represents amortized cost.
(b)As more fully described above, upon realization, certain realized losses will be charged to participating policyholder accounts, or realization will result in a current decrease in the amortization of certain deferred policy acquisition costs.

As stated previously, the valuation for AIG's investment portfolio comes from market exchanges or dealer quotations, with the exception of nontraded securities. AIG considers nontraded securities to mean certain fixed income investments, certain structured securities, direct private equities, limited partnerships and hedge funds. The aggregate carrying value of these securities at March 31, 2005 was approximately $75 billion.

The methodology used to estimate fair value of nontraded fixed income investments is by reference to traded securities with similar attributes and using a matrix pricing methodology. This technique takes into account such factors as the industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, and other relevant factors. The change in fair value is recognized as a component of accumulated other comprehensive income, net of tax.

For certain structured securities, the carrying value is based on an estimate of the security's future cash flows pursuant to the requirements of Emerging Issues Task Force Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." The change in carrying value is recognized in income.

Hedge funds and limited partnerships in which AIG holds in the aggregate less than a five percent interest are carried at fair value. The change in fair value is recognized as a component of accumulated other comprehensive income, net of tax.

With respect to hedge funds and limited partnerships in which AIG holds in the aggregate a five percent or greater interest, AIG uses the equity method to record these investments. Changes in value are recorded in earnings.

AIG obtains the fair value of its investments in limited partnerships and hedge funds from information provided by the general partner or manager of each of these investments, the accounts of which are generally audited on an annual basis.

Each of these investment categories is regularly tested to determine if impairment in value exists. Various valuation

techniques are used with respect to each category in this determination.

Financial Services Operations

AIG's Financial Services subsidiaries engage in diversified activities including aircraft and equipment leasing, capital market transactions, consumer finance and insurance premium financing. (See also Note 2 of Notes to Financial Statements.)

Aircraft Finance

AIG's Aircraft Finance operations represent the operations of International Lease Finance Corporation (ILFC), which 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.

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 three months of 2005 and 2004 were 4.49 percent and 4.34 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note 2 of Notes to Financial Statements.)

ILFC is exposed to operating loss and liquidity strain through nonperformance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and, in part, through committing to purchase aircraft which it would be unable to lease.

ILFC manages its lessee nonperformance 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 effect of possible future deterioration in the airline industry. Over 80 percent of ILFC's fleet is leased to non-U.S. carriers, and this fleet, comprised of the most efficient aircraft in the airline industry, continues to be in high demand from such carriers.

ILFC typically contracts to re-lease aircraft before the end of the existing lease term. For aircraft returned before the end of the lease term, ILFC has generally been able to re-lease such aircraft within two to six months of its return. While some of the lease rates for aircraft that have been redeployed are lower, the effect of these reduced revenues is partially offset by low interest rates, which reduces ILFC's financing costs. As a lessor, ILFC considers an aircraft "idle" or "off lease" when the aircraft is not subject to a signed lease agreement or signed letter of intent. ILFC had one aircraft off lease at March 31, 2005. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

ILFC sold a portfolio consisting of 34 aircraft in 2004 to a trust connected to a securitization transaction. Certain of AIG's Life Insurance & Retirement Services businesses purchased a large share of the securities issued in connection with this securitization, which included both debt and equity securities.

Management formally reviews regularly, and no less frequently than quarterly, issues affecting ILFC's fleet, including events and circumstances that may cause impairment of aircraft values. Management evaluates aircraft in the fleet as necessary, based on these events and circumstances in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). ILFC has not recognized any impairment related to its fleet, as the existing service potential of the aircraft in ILFC's portfolio has not been diminished. Further, ILFC has been able to re-lease the aircraft without diminution in lease rates to an extent that would require an impairment write-down. (See also the discussions under "Liquidity" herein.)

Capital Markets

AIG's Capital Markets operations represents the integrated operations of AIGFP and AIGTG. As Capital Markets is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. Also, AIG's Capital Markets operations may be adversely affected by the downgrades in AIG's credit ratings. See "Outlook", for a further discussion of the potential effect of the rating downgrades on AIG's Capital Markets businesses herein.

AIG's Capital Markets operations derive substantially all their revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. These subsidiaries participate in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity, commodity and credit products business.

As a dealer, AIGFP marks all derivative and trading transactions to fair value daily. Thus, a gain or loss on each transaction is recognized daily. Under GAAP, in certain instances, gains and losses are required to be recorded in earnings immediately, whereas in other instances, they are required to be recognized over the life of the underlying contracts. AIGFP hedges the market risks arising from its transactions. Therefore, revenues and operating income are not significantly exposed to or affected by market fluctuations and volatility, except for the volatility resulting from differences in the timing of the revenue recognition for the positions that do not qualify for hedge accounting under FAS 133 compared with their associated hedges. Revenues of the Capital Markets operations and the percentage change in revenues for any given period are significantly affected by the number and size of transactions entered into by these subsidiaries during that period relative to those entered into during the

prior period. Operating income and the percentage change in operating income for any period are determined by the number, size and profitability of the transactions attributable to that period relative to those attributable to the prior period. Generally, the realization of trading revenues as measured by the receipt of funds is not a significant reporting event as the gain or loss on AIGFP's trading transactions are currently reflected in operating income as the fair values change from period to period.

Derivative transactions are entered into in the ordinary course of Capital Markets operations. Therefore, income on interest rate, currency, equity, commodity and credit derivatives along with their related hedges is recorded at fair value, determined by references to the mark to market value of the derivative or their estimated fair value where market prices are not readily available. The resulting aggregate unrealized gains or losses from the derivative is reflected in the income statement in the current year. In the first quarter of 2005, less than five percent of revenues resulted from transactions valued at estimated fair value. The mark to fair value of derivative transactions is reflected in the balance sheet in the captions "Unrealized gain on swaps, options and forward transactions" and "Unrealized loss on swaps, options and forward transactions." Unrealized gains represent the present value of the aggregate of each net receivable by counterparty, and the unrealized losses represent the present value of the aggregate of each net payable by counterparty as of March 31, 2005. These amounts will change from one period to the next due to changes in interest rates, currency rates, equity and commodity prices and other market variables, as well as cash movements, execution of new transactions and the maturing of existing transactions. (See also the discussion under "Derivatives" herein.)

Spread income on investments and borrowings is recorded on an accrual basis over the life of the transaction. Investments are classified as securities available for sale and are marked to market with the resulting unrealized gains or losses reflected in accumulated other comprehensive income. U.S. dollar denominated borrowings are carried at cost, while borrowings in any currency other than the U.S. dollar result in unrealized foreign exchange gains or losses reported in income. AIGFP hedges the economic exposure on its investments and borrowings through its derivatives portfolio. The requirements under FAS 133 hedge accounting were not met for certain of these hedge transactions for the period ended March 31, 2005. Thus, these hedges are marked to fair value with the unrealized gains or losses reported in income.

Consumer Finance

Domestically, AIG's Consumer Finance operations derive a substantial portion of their revenues from finance charges assessed on outstanding mortgages, home equity loans, secured and unsecured consumer loans and retail merchant financing. Credit quality continues to be strong and receivables grew substantially. Overseas operations, particularly those in emerging markets, provide credit cards, personal and auto loans, term deposits, savings accounts, sales finance and mortgages.

Consumer Finance operations are exposed to loss when contractual payments are not received. Collection exposure is managed through tight underwriting controls, mix of loans and collateral thereon.

Financial Services operations for the three month periods ending March 31, 2005 and 2004 were as follows:

(in millions)	**2005**	2004
Revenues[(a)]:		
Aircraft Finance[(b)]	**$ 858**	$ 752
Capital Markets[(c)(d)]	**738**	317
Consumer Finance[(e)]	**833**	693
Other	**20**	26
Total	**$ 2,449**	$ 1,788
Operating income[(a)]:		
Aircraft Finance	**$ 206**	$ 180
Capital Markets[(d)]	**599**	167
Consumer Finance	**231**	183
Other, including intercompany adjustments	**7**	15
Total	**$ 1,043**	$ 545

(a) *Includes the unrealized gain (loss) attributable to economic hedges not qualifying for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the first three months of 2005 and 2004, the effect was $15 million and $20 million, respectively, in operating income for Aircraft Finance and $449 million and $37 million in both revenues and operating income for Capital Markets.*

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

(c) *Revenues, shown net of interest expense, were primarily from hedged proprietary positions entered into in connection with counterparty transactions and the effect of not qualifying for hedge accounting treatment under FAS 133 described in (a) above.*

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

(e) *Revenues were primarily finance charges.*

Financial Services Results

Financial Services operating income increased in the first three months of 2005 compared to the same period of 2004 due to strong results in all the businesses and the accounting effect of FAS 133. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations and hedge accounting treatment not being obtained under FAS 133.

To the extent the Financial Services subsidiaries, other than AIGFP, use derivatives to hedge their assets or liabilities with respect to their future cash flows, and such hedges do not qualify for hedge accounting treatment under FAS 133, the changes in fair value of such derivatives are recorded in realized capital gains (losses) or other revenues.

Financial market conditions in the first three months of 2005 compared with the same period of 2004 were characterized by interest rates which were broadly unchanged across fixed income markets globally, some widening of credit spreads, and higher equity valuations. Capital Markets' results in 2005 compared with 2004 reflected a shift in product segment activity to respond to these conditions.

The most significant component of Capital Markets operating expenses is compensation, which was approximately $111 million and $114 million in the first three months of 2005 and 2004, respectively. The amount of compensation was not affected by unrealized gains or losses attributable to economic hedges, including the related foreign exchange gains and losses not qualifying for hedge accounting treatment under FAS 133.

With respect to ILFC, the revenue growth in the first three months of 2005 compared to the same period of 2004 resulted primarily from the increase in flight equipment under operating lease, and the increase in the relative value of the leased fleet. ILFC continued to see net improvements in lease rates and an increasing level of interest from traditional buyers, third-party investors and debt providers for the purchase of aircraft from ILFC's extensive lease portfolio. Thus, the outlook for the remainder of 2005 is positive.

In connection with a global aircraft lease transaction entered into in 2000 for a total of 14 aircraft, ILFC acquired certain securities of and issued certain guarantees to ATA Airlines and related entities (ATA). During the fourth quarter of 2004, ATA filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On the basis of estimates of the probable outcome of the ATA bankruptcy, ILFC recorded a charge in the fourth quarter to write down the value of the ATA securities and record obligations assumed under the guarantee. The pre-tax charges aggregated $54 million (reported as a realized capital loss) and did not have a material effect on AIG's results of operations, financial condition or liquidity.

ATA has cured all of the defaults under the existing leases and continues to perform under the leases at the pre-bankruptcy contracted lease terms.

Consumer Finance operations, both domestically and internationally, did very well with increased revenues and operating income.

The increase in Consumer Finance revenues in 2005 was the result of growth in average finance receivables. Credit quality of those receivables continues to be strong. Foreign Consumer Finance operations performed well as the operations in Poland continued its strong growth and the Hong Kong credit card business benefited from the strengthening local economy resulting in less need for loan loss provisions. Further, the continuing low interest rate and charge-off environment led to an improvement in the operating income in 2005 over 2004.

Financial Services operating income represented 19.2 percent of AIG's consolidated income before income taxes, minority interest and cumulative effect of accounting changes in the first quarter of 2005. This compares to 13.8 percent in the first quarter of 2004. The increase in contribution percentage in 2005 was due to the effect of hedge accounting treatment under FAS 133.

Financial Services Invested Assets

The following table is a summary of the composition of AIG's Financial Services invested assets at March 31, 2005 and December 31, 2004. (See also the discussions under "Operating Review: Financial Services Operations," "Capital Resources" and "Derivatives" herein.)

	2005		2004	
(dollars in millions)	**Invested Assets**	**Percent of Total**	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	**$ 34,550**	**23.0%**	$ 32,705	22.4%
Finance receivables, net of allowance	**24,929**	**16.6**	23,574	16.2
Unrealized gain on swaps, options and forward transactions	**20,149**	**13.4**	22,670	15.5
Securities available for sale, at market value	**29,332**	**19.6**	30,448	20.9
Trading securities, at market value	**3,485**	**2.3**	3,142	2.1
Securities purchased under agreements to resell, at contract value	**32,570**	**21.7**	26,272	18.0
Trading assets	**1,372**	**0.9**	3,331	2.3
Spot commodities, at market value	**98**	**0.1**	95	0.1
Other, including short-term investments	**3,481**	**2.4**	3,625	2.5
Total	**$ 149,966**	**100.0%**	$ 145,862	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 three months of 2005, ILFC acquired flight equipment costing $2.22 billion. (See also the discussion under "Operating Review: Financial Services Operations" and "Capital Resources" herein.)

AIG's Consumer Finance operations provide a wide variety of consumer finance products both domestically and over-

seas. Such products include real estate mortgages, consumer loans, and retail sales finance. These products are funded through deposits and 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.

Capital Markets 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 required to sell or close out the transactions prior to maturity. AIG believes that the effect of any such event would not be significant to AIG's financial condition or its overall liquidity. (See also the discussion under "Operating 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, or invest in new assets. (See also the discussion under "Capital Resources" herein.)

Securities available for sale is predominantly a portfolio of fixed income securities, where the individual securities have varying degrees of credit risk. At March 31, 2005, 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 $149 million of these securities. There have been no significant downgrades through March 31, 2005.

AIGFP's risk management objective is to minimize interest rate, currency, commodity and equity risks associated with its securities available for sale. That is, when AIGFP purchases a security for its securities available for sale investment portfolio, it simultaneously enters into an offsetting internal hedge such that the payment terms of the hedging transaction offset the payment terms of the investment security, which achieves the economic result of converting the return on the underlying security to USD LIBOR plus or minus a spread based on the underlying profit on each security on the initial trade date. The market risk associated with such internal hedges is managed on a portfolio basis, with third party hedging transactions executed as necessary. As hedge accounting treatment is not achieved in accordance with FAS 133, the unrealized gains and losses on these securities, resulting from changes in interest rates, currency rates, commodity and equity prices, are recorded in accumulated other comprehensive income while the unrealized gains and losses on the related economic hedges are reflected in operating income. When a security is sold, the related hedging transaction is terminated. The realized gain or loss with respect to each security is then recorded in operating income.

Securities purchased under agreements to resell are treated as collateralized financing 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 it 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 or the credit default swap counterparty failed to perform, AIGFP could have a liquidity strain. AIG guarantees AIGFP's payment obligations, including its debt obligations.

AIGFP also conducts, as principal, market making and trading activities in foreign exchange, and commodities, primarily precious metals. AIGFP 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. AIGFP 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. AIGFP 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.")

The gross unrealized gains and gross unrealized losses of Capital Markets included in the financial services assets and liabilities at March 31, 2005 were as follows:

(in millions)	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale, at market value	$ 1,046	$ 454
Unrealized gain/ loss on swaps, options and forward transactions*	20,149	14,751

** These amounts are also presented as the respective balance sheet amounts.*

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 trading securities are held to meet the short-term risk management objectives of Capital Markets operations.

The senior management of AIG defines the policies and establishes general operating parameters for Capital Markets operations. AIG's senior management has established various oversight committees to review the various financial market, operational and credit issues of the Capital Markets operations. The senior management of AIGFP reports the results of its operations to and reviews 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.

At March 31, 2005, AIGFP held a large portfolio of privately negotiated financing transactions with institutional counterparties in the United Kingdom. Certain provisions in the UK Finance Bill that was published by the House of Commons on March 22, 2005 have caused AIGFP's counterparties to exercise rights to unwind these transactions early. Although the unwinding of these transactions will not cause AIGFP to suffer any losses, the unwinds do mean that AIGFP will not realize spread income in the future that AIGFP expects it would have realized had the transactions remained outstanding. The aggregate reduction in 2005 operating income attributable to such foregone future accrual earnings is currently expected to be approximately $75 million.

Asset Management Operations

AIG's Asset Management operations comprise a wide variety of investment-related services and investment products including institutional and retail asset management, broker dealer services and spread-based investment business from the sale of guaranteed investment contracts, also known as funding agreements (GICs). Such services and products are offered to individuals and institutions both domestically and overseas.

As discussed above, AIG Retirement Services operations are now reported with Life Insurance operations. Therefore, Asset Management operations now represent the results of AIG's asset management and brokerage services operations, mutual fund operations and the foreign and domestic GIC operations.

Asset Management revenues and operating income for the three months ended March 31, 2005 and 2004 were as follows:

(in millions)	**2005**	2004
Revenues:		
Guaranteed investment contracts	**$ 896**	$ 730
Institutional Asset Management[(a)]	**317**	183
Brokerage Services and Mutual Funds	**63**	61
Other	**99**	58
Total	**$ 1,375**	$ 1,032
Operating income:		
Guaranteed investment contracts	**$ 257**	$ 223
Institutional Asset Management[(a)(b)]	**159**	55
Brokerage Services and Mutual Funds	**13**	20
Other	**97**	55
Total	**$ 526**	$ 353

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

Asset Management Results

Asset Management operating income increased in the first three months of 2005 compared to the same period of 2004 as a result of a strong global product portfolio. The operating income growth results from fees related to the management of mutual funds and various investment portfolios that are in great part contingent upon the growth in the equity markets and customer interest in equity sensitive products. Thus, as equity markets expand and contract, the appetite for listed and private equity investment changes. The revenues and operating income with respect to this segment are similarly affected. GICs are sold domestically and abroad to both institutions and individuals. These products are written on an opportunistic basis when market conditions are favorable. GIC revenues include income from SunAmerica partnerships supporting the GIC line of business and are significantly affected by performance in the equity markets. Thus, revenues, operating income and cash flow attributable to GICs will vary from one reporting period to the next. Growth in GIC operating income compared to the first quarter of 2004 reflects improved partnership returns and increased assets under management, partially offset by spread compression on the core GIC portfolio. Spread compression has occurred as the base portfolio yield declined due to declining interest rates and the effect of recognizing capital gains in prior periods, and also due to an increase in the cost of funds in the short-term floating rate portion of the GIC portfolio only partially offset by increased investment income from the floating rate assets backing the portfolio. AIG expects to launch a matched investment program utilizing issuances of AIG debt securities,

which will become AIG's principal spread-based investment activity. In light of recent developments, the timing of the launch of this program is unclear. Because AIG's credit spreads in the capital markets have widened following the ratings declines, there may be a reduction in the earnings on new business in AIG's institutional spread based funding business.

Asset Management operating income represented 9.7 percent of AIG's consolidated income before income taxes, minority interest and cumulative effect of an accounting change in the first three months of 2005. This compares to 9.0 percent in the same period of 2004.

At March 31, 2005, AIG's third party assets under management, including both retail mutual funds and institutional accounts, exceeded $55 billion and the aggregate GIC reserve was $56.0 billion.

Other Operations

Other income (deductions)-net includes AIG's equity in certain partially owned companies, the cash distributions on the liabilities connected to trust preferred stock, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. Other income (deductions)-net amounted to $(25) million and $(259) million in the first three months of 2005 and 2004, respectively.

Capital Resources

At March 31, 2005, AIG had total consolidated shareholders' equity of $82.68 billion and total consolidated borrowings of $104.78 billion. At that date, $95.26 billion of such borrowings were either not guaranteed by AIG or were AIGFP's matched borrowings under obligations of guaranteed investment agreements (GIAs), liabilities connected to trust preferred stock, or matched notes and bonds payable.

Borrowings

At March 31, 2005, AIG's net borrowings were $9.51 billion after reflecting amounts that were matched borrowings under AIGFP's obligations of GIAs, matched notes and bonds payable, amounts not guaranteed by AIG and liabilities connected to trust preferred stock. The following table summarizes borrowings outstanding at March 31, 2005 and December 31, 2004:

(in millions)	**2005**	2004
AIG's net borrowings	$ **9,512**	$ 8,498
Liabilities connected to trust preferred stock	**1,489**	1,489
AIGFP		
GIAs	**22,691**	18,919
Matched notes and bonds payable	**23,089**	20,624
Borrowings not guaranteed by AIG	**47,994**	45,733
Total	$ **104,775**	$ 95,263

Borrowings issued or guaranteed by AIG and those borrowings not guaranteed by AIG at March 31, 2005 and December 31, 2004 were as follows:

(in millions)	**2005**	2004
AIG borrowings:		
Medium term notes	$ **667**	$ 667
Notes and bonds payable	**2,983**	2,980
Loans and mortgages payable	**316**	349
Total	**3,966**	3,996
Borrowings guaranteed by AIG:		
AIGFP		
GIAs	**22,691**	18,919
Notes and bonds payable	**24,060**	21,062
Total	**46,751**	39,981
AIG Funding, Inc. commercial paper	**3,479**	2,969
AGC Notes and bonds payable	**1,096**	1,095
Liabilities connected to trust preferred stock	**1,489**	1,489
Total borrowings issued or guaranteed by AIG	**56,781**	49,530
Borrowings not guaranteed by AIG:		
ILFC		
Commercial paper	**4,448**	2,670

Medium term notes	**5,503**	5,972
Notes and bonds payable[(a)]	**15,716**	15,734
Loans and mortgages payable[(b)]	**20**	40
Total	**25,687**	24,416
AGF		
Commercial paper	**3,695**	3,686
Medium term notes	**14,818**	13,709
Notes and bonds payable	**1,540**	1,585
Total	**20,053**	18,980
Commercial paper:		
AIG Credit Card Company (Taiwan)	**329**	359
AIG Finance (Taiwan) Limited	**5**	9
Total	**334**	368
Loans and mortgages payable:		
AIGCFG	**647**	792
AIG Finance (Hong Kong) Limited	**103**	49
Total	**750**	841
Other Subsidiaries	**821**	829
Variable Interest Entity debt:		
AIG Global Real Estate Investment	**7**	8
AIG Capital Partners	**165**	165
AIG SunAmerica	**177**	126
Total	**349**	299
Total borrowings not guaranteed by AIG	**47,994**	45,733
Total Debt	**$ 104,775**	$ 95,263

(a) Includes borrowings under Export Credit Facility of $2.1 billion and $1.7 billion, at March 31, 2005 and December 31, 2004, respectively.
(b) Capital lease obligations.

For a description of the effects on AIG’s capital resources, including the cost of borrowing, of recent downgrades and rating actions by the major rating agencies, see the discussion under “Outlook” herein.

During the first three months of 2005, AIG did not issue any medium term notes. AIG intends to continue its customary practice of issuing debt securities from time to time to

meet its financing needs and those of certain of its subsidiaries for general corporate purposes, as well as to initiate a matched investment program.

On May 15, 2003, AIG sold $1.5 billion principal amount of notes in a Rule 144A/Regulation S offering, $500 million of which bear interest at a rate of 2.875 percent per annum and mature in 2008 and $1.0 billion of which bear interest at a rate of 4.250 percent per annum and mature in 2013. The notes are senior unsecured obligations of AIG and rank equally with all of AIG’s other senior debt outstanding. AIG completed an exchange offer in April 2004 with respect to the Rule 144A/Regulation S Notes and issued in exchange substantially identical notes that are registered under the Securities Act.

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 borrowings may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under “Operating Review,” “Liquidity” and “Derivatives” herein.)

AIGFP has established a Euro Medium Term Note Program under which an aggregate principal amount of up to $5.0 billion of notes may be outstanding. The Program provides that additional notes may be issued to replace matured or redeemed notes. As of March 31, 2005, $8.25 billion of notes had been issued under the program, $4.94 billion of which were outstanding including $124 million resulting from foreign exchange translation into U.S. dollars. Notes issued under this program are included in Notes and Bonds Payable in the preceding table of borrowings.

AIG Funding, Inc. (AIG Funding), through the issuance of commercial paper, helps fulfill the short-term cash requirements of AIG and its subsidiaries. AIG Funding intends to continue to meet AIG’s funding requirements through the issuance of commercial paper guaranteed by AIG. The issuance of AIG Funding’s commercial paper is subject to the approval of AIG’s Board of Directors.

AIG and AIG Funding are parties to unsecured syndicated revolving credit facilities aggregating $2.75 billion, consisting of $1.375 billion in a 364-day revolving credit facility that expires in July of 2005 and $1.375 billion in a five-year revolving credit facility that expires in July of 2007. The 364-day facility allows for the conversion by AIG of any outstanding loans at expiration into one-year term loans. The facilities can be used for general corporate purposes and also to provide backup for AIG’s commercial paper programs administered by AIG Funding. AIG expects to replace or extend these credit facilities on or prior to their expiration. There are currently no borrowings outstanding under these facilities, nor were any borrowings outstanding as of March 31, 2005.

AIG obtained waivers from the lenders under these revolving credit facilities providing for the extension of the delivery date of AIG’s consolidated financial statements for the first quarter of 2005 through June 30, 2005.

AIG is also a party to an unsecured inter-company revolving credit facility provided by certain of its subsidiaries aggregating $2 billion that expires in October of 2005. The facility allows for the conversion of any outstanding loans at expiration into one-year term loans. The facility can be used for general corporate purposes and also to provide backup for AIG’s commercial paper programs. AIG expects to replace or extend this credit facility on or prior to its expiration. There are currently no borrowings outstanding under the inter-company facility, nor were any borrowings outstanding as of March 31, 2005.

As of November 2001, AIG guaranteed the notes and bonds of AGC.

Preferred stock issued by an AGC subsidiary, American General Capital I, with a liquidation value of $200 million was redeemed for cash on September 8, 2004. AGC redeemed the related Junior Subordinated Debentures at that time, extinguishing the liabilities connected to the trust preferred stock.

ILFC fulfills its short term cash requirements through the issuance of commercial paper. The issuance of commercial paper is subject to the approval of ILFC’s Board of Directors and is not guaranteed by AIG. ILFC is a party to unsecured syndicated revolving credit facilities aggregating $6.0 billion at March 31, 2005. The facilities can be used for general corporate purposes and also to provide backup for ILFC’s commercial paper program and consist of $4.0 billion in a 364-day revolving credit facility that expires in October 2005, with a one-year term out option, and $2.0 billion in a five-year revolving credit facility that expires in October 2009. ILFC expects to replace or extend these credit facilities on or prior to their expiration. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of March 31, 2005.

At March 31, 2005, ILFC had increased the aggregate principal amount outstanding of its medium term and long-term notes. The foreign exchange adjustment for the foreign currency denominated debt was $933 million at March 31, 2005 and $1.2 billion at December 31, 2004. ILFC had $13.13 billion of debt securities registered for public sale at March 31, 2005. As of March 31, 2005, $6.11 billion of debt securities were issued. In addition, ILFC has a Euro Medium Term Note Program for $7.0 billion, under which $4.48 billion in notes were sold through March 31, 2005. ILFC has substantially eliminated the currency exposure arising from foreign currency denominated notes by either hedging the notes through swaps or through the offset provided by operating lease payments in Euros. Notes issued under this program are included in Notes and Bonds Payable in the preceding 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 varies from 5.75 percent to 5.90 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At March 31, 2005, ILFC had $1.5 billion outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. In May 2004, ILFC entered into a similarly structured Export Credit Facility (ECA) for up to a maximum of $2.64 billion for Airbus aircraft to be delivered in 2004 and 2005. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a six-month forward-looking calendar, and the interest rate is determined through a bid process. At March 31, 2005, ILFC has $604 million outstanding under this facility. Borrowings with respect to these facilities are included in Notes and Bonds Payable in the preceding table of borrowings.

In August 2004, ILFC received a commitment for an Ex-Im Bank comprehensive guarantee in the amount of $1.68 billion to support the financing of up to 30 new Boeing aircraft. The delivery period initially extends from September 1, 2004 through August 31, 2005, but may be extended to August 31, 2006. ILFC did not have any borrowings outstanding under this facility at March 31, 2005. During 2003, ILFC entered into various bank financings for a total funded amount of $1.3 billion. The financings mature through 2009. One tranche of one of the loans totaling $410 million was funded in Japanese yen and swapped to U.S. dollars.

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 “Operating Review” and “Liquidity” herein.)

AGF fulfills its short term cash requirements through the issuance of commercial paper. The issuance of commercial paper is subject to the approval of AGF’s Board of Directors and is not guaranteed by AIG. AGF is a party to unsecured syndicated revolving credit facilities aggregating $3.25 billion, consisting of $1.75 billion in a 364-day revolving credit facility that expires in July of 2005 and $1.5 billion in a five-year revolving credit facility that expires in July of 2007. The 364-day facility allows for the conversion by AGF of any outstanding loans at expiration into one-year term loans. The facilities can be used for general corporate purposes and also to provide backup for AGF’s commercial paper programs. AGF expects to replace or extend these credit facilities on or prior to their expiration. There are currently no borrowings under these AGF facilities, nor were any borrowings outstanding as of March 31, 2005.

AGF is also party to several bilateral credit agreements aggregating $260 million at March 31, 2005. The terms and conditions of these agreements are identical to AGF’s 364-day revolving credit facility.

During the first three months of 2005, AGF issued $1.77 billion fixed rate and variable rates medium term notes ranging in maturities from two to five years. As of March 31, 2005, notes aggregating $14.82 billion were outstanding with maturity dates ranging from 2005 to 2014 at interest rates ranging from 1.25 percent to 7.50 percent. To the extent deemed appropriate, AGF may enter into swap transactions to manage its effective borrowing with respect to these notes.

In addition, AGF issued $2.86 billion of long-term funding in 2004 from sources including Euro-denominated and Sterling-denominated transactions totaling the equivalent of $1.82 billion. Other funding sources included private placement debt, retail note issuances and bank financings.

AIG Credit Company (Taiwan) — (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited — (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, have issued commercial paper for the funding of their own operations. At March 31, 2005, AIG did not guarantee the commercial paper of any of its subsidiaries other than AIG Funding. (See also the discussion under “Derivatives” herein).

Contractual Obligations and Other Commercial Commitments

The maturity schedule of AIG's contractual obligations at March 31, 2005 was as follows:

(in millions)

		Payments due by Period			
	Total Payments	Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years
Borrowings[a]	$ 92,470	$33,595	$ 19,287	$ 16,392	$23,196
Loss Reserves[b]	64,061	17,617	19,538	9,289	17,617
Insurance and investment contract liabilities[c]	55,682	11,709	15,692	14,538	13,743
Aircraft purchase commitments	19,552	3,804	10,132	5,249	367
Total	$ 231,765	$66,725	$ 64,649	$ 45,468	$54,923

(a) *Excludes commercial paper and obligations included as debt pursuant to FIN 46R and includes ILFC's capital lease obligations.*
(b) *Represents future loss and loss adjustment expense payments estimated based on historical loss development payment patterns.*
(c) *Insurance and investment contract liabilities include various investment-type products with contractually scheduled maturities including periodic payments of a term certain nature and guaranteed maturities under guaranteed investment contracts. Items excluded from the table include (i) liabilities for future policy benefits of approximately $108 billion, and (ii) policyholder contract deposits of approximately $173 billion. Amounts excluded from the table are generally comprised of policies or contracts where (i) AIG is currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship, or (iii) the occurrence of a payment due to a surrender or other non-scheduled event out of AIG's control. The determination of these liability amounts and timing of payment are not reasonably fixed and determinable. Significant uncertainties relating to these liabilities include mortality, morbidity, expenses, persistency, investment returns, inflation, and future policyholder elections as to benefits.*

The maturity schedule of AIG's other commercial commitments by segment at March 31, 2005 was as follows:

(in millions)

		Amount of Commitment Expiration			
	Total Amounts Committed	Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years
Letters of credit:					
Life Insurance & Retirement Services	$ 185	$ 91	$ 1	$ –	$ 93
DBG	199	105	94	–	–
Standby letters of credit:					
Capital Markets	1,556	4	39	31	1,482
Guarantees:					
Life Insurance & Retirement Services[a]	2,617	225	413	–	1,979
Asset Management	119	62	57	–	–
Other commercial commitments[b]:					
Capital Markets[c]	16,403	557	2,057	2,750	11,039
Aircraft Finance[d]	689	23	362	–	304
Life Insurance & Retirement Services[e]	2,392	437	821	319	815
Asset Management	495	340	155	–	–
DBG[f]	1,380	–	–	–	1,380
Total	$ 26,035	$ 1,844	$ 3,999	$ 3,100	$ 17,092

(a) *Primarily AIG SunAmerica construction guarantees connected to affordable housing investments.*
(b) *Excludes commitments with respect to pension plans. AIG expects to contribute approximately $132 million to its U.S. and non-U.S. pension plans in 2005.*
(c) *Primarily liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.*
(d) *Primarily in connection with options to acquire aircraft.*
(e) *Primarily AIG SunAmerica commitments to invest in partnerships.*
(f) *Primarily commitments to invest in limited partnerships.*

"Rating triggers" have been defined by one independent rating agency to include clauses or agreements the outcome of which depends upon the level of ratings maintained by one or more rating agencies. Rating triggers generally relate to events which (i) could result in the termination or limitation of credit availability, or require accelerated repayment, (ii) could result in the termination of business contracts or (iii) could require a company to post collateral for the benefit of counterparties.

AIG believes that any of its or its subsidiaries' contractual obligations that are subject to "ratings triggers" or financial covenants relating to "ratings triggers" would not have a material adverse effect on its financial condition, future operating results or liquidity.

As a result of the downgrades of AIG's long-term senior debt ratings, AIG has been required to post approximately $1.16 billion of collateral with counterparties to municipal guaranteed investment agreements and financial derivatives transactions. In the event of a further downgrade, AIG will be required to post additional collateral. It is estimated that, as of the close of business on June 23, 2005, based on AIG's outstanding municipal guaranteed investment agreements and financial derivatives transactions as of such date, a further downgrade of AIG's long-term senior debt ratings to 'Aa3' by Moody's or 'AA–' by S&P would permit counterparties to call for approximately $2.10 billion of additional collateral. Further, additional downgrades could result in requirements for substantial additional collateral, which could have a material effect on how AIG manages its liquidity. The actual amount of additional collateral that AIG would be required to post to counterparties in the event of such downgrades depends on market conditions, the market value of the outstanding affected transactions and other factors prevailing at the time of the downgrade. The requirement to post additional collateral may increase if additional counterparties begin to require credit support from AIG through collateralization agreements. Additional obligations to post collateral will increase the demand on AIG's liquidity.

Shareholders' Equity

AIG's consolidated shareholders' equity increased $2.08 billion during the first three months of 2005. During the first three months of 2005, retained earnings increased $3.36 billion, resulting from net income less dividends. Unrealized appreciation of investments, net of taxes decreased $1.27 billion and the cumulative translation adjustment loss, net of taxes, increased $99 million. During the first three months of 2005, there was a gain of $179 million, net of taxes, relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under "Operating Review" and "Liquidity" herein and the Consolidated Statement of Comprehensive Income.)

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.

Stock Purchase

During the period January 1, 2005 through March 31, 2005, AIG purchased in the open market 2,477,100 shares of its common stock. AIG from time to time may buy shares of its common stock in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans. At March 31, 2005, an additional 36,542,700 shares could be purchased under the then current authorization by AIG's Board of Directors.

Dividends from Insurance Subsidiaries

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to AIG's domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. Under the laws of many states, an insurer may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds.

With respect to AIG's foreign insurance subsidiaries, the most significant insurance regulatory jurisdictions include Bermuda, Japan, Hong Kong, Taiwan, the United Kingdom, Thailand and Singapore.

AIG cannot predict whether the regulatory investigations currently underway or future regulatory issues will impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is currently on any regulatory or similar "watch list" with regard to solvency. (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. In the U.S. 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 March 31, 2005, the risk-based adjusted surplus of each of AIG's Domestic General companies and of each of AIG's Domestic Life companies exceeded each of their RBC standards. As discussed above, various regulators have commenced investigations into certain insurance business practices, including with respect to AIG. While such investigations are in their early stages, it is possible that they may result in additional regulation of the insurance industry and specific action with respect to AIG and AIG cannot predict the ultimate effect that such additional regulation might have on its business. 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.

AIG's U.S. operations are negatively affected 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 2004 were $118 million.

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.

A substantial portion of AIG's General Insurance business and a majority of its Life Insurance & Retirement Services business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. 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 affect 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.

Foreign operations are individually subject to local solvency margin requirements that require maintenance of adequate capitalization, which AIG complies with by country. In addition, certain foreign locations, notably Japan, have established regulations that can result in guarantee fund assessments. These have not had a material effect on AIG's operations.

Liquidity

AIG's liquidity is primarily derived from the operating cash flows of its General and Life Insurance & Retirement Services operations. Management believes that AIG's liquid assets, its net cash provided by operations, and access to short-term funding through commercial paper and bank credit facilities will enable it to meet any anticipated cash requirements.

At March 31, 2005, AIG's consolidated invested assets included $24.38 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 2005 amounted to $654 million. The $654 million in consolidated net cash provided by operating activities is net of approximately $8 billion used by AIGFP to purchase securities purchased under agreements to resell and to repurchase securities sold under agreements to repurchase in the ordinary course of AIGFP's business. This operating activity was funded in part by proceeds from security sales under similar repurchase and reverse repurchase agreements, but primarily by AIGFP's financing activities, specifically proceeds from guaranteed investment agreements and notes, bonds, loans and mortgages payable. To date, approximately half of the $8 billion was subsequently invested in securities available for sale.

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. Cash flow includes periodic premium collections, including policyholders' contract deposits, cash flows from investment operations and paid loss recoveries less reinsurance premiums, losses, benefits, and 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. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses. (See also the discussions under "Operating Review: General Insurance Operations" and "Life Insurance & Retirement Services Operations" herein.)

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 might 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 significant 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 significantly decreased in value. (See also the discussions under "Operating Review: General Insurance Operations" herein.)

With respect to Life Insurance & Retirement Services operations, if a substantial portion of the Life Insurance & Retirement Services operations bond portfolio diminished significantly in value and/or defaulted, AIG might need to liquidate other portions of its Life Insurance & Retirement Services 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 & Retirement Services operations exist, nationalization, terrorist acts or other such economic or political upheaval. In addition, a significant rise in interest rates leading to a significant increase in policyholder surrenders could also create a liquidity strain. (See also the discussions under "Operating Review: Life Insurance & Retirement Services Operations" herein.)

In addition to the combined insurance pretax operating cash flow, AIG's insurance operations held $13.18 billion in cash and short-term investments at March 31, 2005. 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 predominately 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 $36 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $49 billion of fixed income securities and marketable equity securities during the first three months of 2005.

AIG's major Financial Services operating subsidiaries consist of AIGFP, ILFC, AGF and AIGCFG. Sources of funds considered in meeting the liquidity needs of AIGFP's operations include execution of guaranteed investment agreements, issuance of long-term and short-term debt, proceeds from maturities and sales of securities available for sale, securities sold under repurchase agreements, and securities and spot commodities sold but not yet purchased. ILFC, AGF and AIGCFG all utilize the commercial paper markets, bank loans and bank credit facilities as sources of liquidity. ILFC and AGF also fund in the domestic and international capital markets without reliance on any guarantee from AIG. An additional source of liquidity for ILFC is the use of export credit facilities. AIGCFG also uses wholesale and retail bank deposits as sources of funds. On occasion, AIG has provided equity capital to ILFC, AGF and AIGCFG and provides intercompany loans to AIGCFG. Cash flow provided from operations is a major source of liquidity for AIG's primary Financial Services operating subsidiaries.

AIG, the parent company, funds its short-term working capital needs through commercial paper issued by AIG Funding. As of March 31, 2005, AIG Funding had $3.48 billion of commercial paper outstanding with an average maturity of 26 days. As additional liquidity, AIG parent has a $2 billion inter-company revolving credit facility provided by certain of its subsidiaries, a $1.375 billion 364-day revolving bank credit facility that expires in July 2005 and a $1.375 billion five year revolving bank credit facility that expires in July 2007. AIG parent's primary sources of cash flow are dividends and loans from its subsidiaries. AIG parent's primary uses of cash flow are for debt service and the payment of dividends to shareholders. As of March 31, 2005, including debt obligations of AGC that are guaranteed by AIG, remaining debt maturities due in 2005 are $300 million, $55 million and $500 million for the second, third and fourth quarters, respectively. See also Note 9 of Notes to Consolidated Financial Statements in AIG's 2004 Form 10-K for additional information on debt maturities for AIG and its subsidiaries.

Special Purpose Vehicles and Off Balance Sheet Arrangements

AIG uses special purpose vehicles (SPVs) and off balance sheet arrangements in the ordinary course of business. As a result of recent changes in accounting, a number of SPVs and off balance sheet arrangements have been reflected in AIG's consolidated financial statements. In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 addressed the consolidation and disclosure rules for nonoperating entities that are now defined as Variable Interest Entities (VIEs). In December 2003, FASB issued a revision to Interpretation No. 46 (FIN 46R).

AIG has restrictive guidelines with respect to the formation of and investment in SPVs and off balance sheet arrangements. In particular, AIG has expanded the responsibility of its Complex Structured Financial Transaction Committee (CSFT) to include the review of any transaction that could enable a third party to achieve an accounting or financial reporting result that is not in conformity with applicable GAAP or subject AIG to heightened legal, reputational, regulatory or other risk. See "Management's Report on Internal Control Over Financial Reporting" in Item 9A of Part II included in AIG's 2004 Form 10-K for a further discussion of the CSFT.

For additional information related to AIG's activities with respect to VIEs and certain guarantees see "Recent Accounting Standards" herein and also Note 8 of Notes to Financial Statements. Also, for additional disclosure regarding AIG's commercial commitments (including guarantors), see "Contractual Obligations and Other Commercial Commitments" herein.

Derivatives

Derivatives are financial instruments among two or more parties with returns 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, financial or commodity indices, or other variables. 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 by the Capital Markets operations, 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, AIGFP's credit department operates within the guidelines set and authorities granted 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 pre-established guidelines and limits require the specific approval of the AIG Credit Risk Committee. It is also AIG's policy to establish reserves for potential credit impairment when necessary.

In addition, AIGFP utilizes various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, and margin agreements to reduce the credit risk relating to its outstanding derivative financial transactions. 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.

AIG's Derivatives Review Committee provides an independent review of any proposed derivative transaction or program except those derivative transactions entered into by AIGFP with third parties. The committee examines, among other things, the nature and purpose of the derivative transaction, its potential credit exposure, if any, and the estimated benefits.

FAS 133 requires that third-party derivatives used for hedging must be specifically matched with the underlying exposures to an outside third party and documented contemporaneously to qualify for hedge accounting treatment. In many cases, AIG did not meet these hedging requirements with respect to certain hedging transactions. Not meeting the requirements of FAS 133 does not result in any changes in AIG's liquidity or its overall financial condition even though inter-period volatility of earnings increased.

Managing Market Risk

Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest rates, foreign currencies, equities and commodity prices. AIG has exposures to these risks.

AIG analyzes market risk using various statistical techniques including Value at Risk (VaR). VaR is a summary statistical measure that applies the estimated volatility and correlation of market factors to AIG's market positions. The output from the VaR calculation is the maximum loss that could occur over a defined period of time given a certain probability. 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. AIG believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

Insurance

AIG has performed a separate VaR analysis for the General Insurance and Life Insurance & Retirement Services segments and for each market risk within each segment. For purposes of the VaR calculation, the insurance assets and liabilities from GICs are included in the Life Insurance & Retirement Services segment. For the calculations in the analyses the financial instrument assets included are the insurance segments' invested assets, excluding real estate and investment income due and accrued, and the financial instrument liabilities included are reserve for losses and loss expenses, reserve for unearned premiums, future policy benefits for life and accident and health insurance contracts and other policyholders' funds.

AIG calculated the VaR with respect to the net fair value of each of AIG's insurance segments as of March 31, 2005 and December 31, 2004. The VaR number represents the maximum potential loss that could be incurred with a 95 percent confidence (i.e., only 5 percent of historical scenarios show losses greater than the VaR figure) within a one-month holding period. AIG uses the historical simulation methodology that entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. AIG uses the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices. For each scenario, each transaction was repriced. Portfolio, business unit and finally AIG-wide scenario values are then calculated by netting the values of all the underlying assets and liabilities.

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 March 31, 2005 and December 31, 2004. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

	General Insurance		Life Insurance & Retirement Services	
(in millions)	**2005**	2004	**2005**	2004
Market risk:				
Combined	**$ 1,672**	$ 1,396	**$ 4,626**	$ 5,024
Interest rate	**1,931**	1,563	**4,442**	4,750
Currency	**121**	139	**534**	478
Equity	**671**	727	**1,015**	1,024

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 March 31, 2005 and December 31, 2004. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

	2005			2004		
(in millions)	**Average**	**High**	**Low**	Average	High	Low
General Insurance:						
Market risk:						
Combined	**$ 1,534**	**$ 1,672**	**$ 1,396**	$ 1,299	$ 1,497	$ 1,100
Interest rate	**1,747**	**1,931**	**1,563**	1,407	1,591	1,173
Currency	**130**	**139**	**121**	111	139	88
Equity	**699**	**727**	**671**	744	797	688
Life Insurance & Retirement Services:						
Market risk:						
Combined	**$ 4,825**	**$ 5,024**	**$ 4,626**	$ 4,021	$ 5,024	$ 3,075
Interest rate	**4,596**	**4,750**	**4,442**	3,831	4,750	2,967
Currency	**506**	**534**	**478**	326	478	257
Equity	**1,019**	**1,024**	**1,015**	884	1,024	758

Financial Services

AIG generally manages its market exposures within Financial Services by maintaining offsetting positions. Capital Markets seeks to minimize or set limits for open or uncovered market positions. Credit exposure is managed separately. (See the discussion on the management of credit risk above.)

AIG's Market Risk Management Department provides detailed independent review of AIG's market exposures, particularly those market exposures of the Capital Markets operations. 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.

ILFC is exposed to market risk and the risk of loss of fair value and possible liquidity strain resulting from adverse fluctuations in interest rates. As of March 31, 2005 and December 31, 2004, AIG statistically measured the loss of fair value through the application of a VaR model. In this analysis, the net fair value of Aircraft Finance operations 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 effect of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of Aircraft Finance operations using the historical simulation methodology, as previously described. As of March 31, 2005 and December 31, 2004, the average VaR with respect to the net fair value of Aircraft Finance operations was approximately $76 million and $70 million, respectively.

Capital Markets operations are exposed to market risk due to changes in the level and volatility of interest rates, foreign currency exchange rates, equity prices and commodity prices. AIGFP hedges its exposure to these risks primarily through swaps, options, forwards and futures. To economically hedge interest rate risks, AIGFP may also purchase U.S. and foreign government obligations.

AIGFP does not seek to manage the market risk of each transaction through an individual third party offsetting transaction. Rather, AIGFP takes a portfolio approach to the management of its market risk exposures. AIGFP values the predominant portion of its market-sensitive transactions by marking them to market currently through income. A smaller

portion is priced by estimated fair value based upon a conservative extrapolation of market factors. There is another limited portion of transactions where the initial fair value is not recorded through income currently and gains or losses are accrued over the life of the transactions. These valuations represent an assessment of the present values of expected future cash flows and may include reserves for such risks as are deemed appropriate by AIGFP and AIG management.

AIGFP manages 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 from 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.

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 use an internal methodology which includes extrapolation from observable and verifiable prices nearest to the dates of the transactions. Historically, actual results have not materially deviated from these models.

Systems used by Capital Markets operations can monitor each unit’s respective market positions on an intraday basis. AIGFP operates in major business centers overseas and therefore is open for business essentially 24 hours a day. Thus, the market exposure and offset strategies are monitored, reviewed and coordinated around the clock.

AIGFP applies various testing techniques which reflect significant potential market movements in interest rates, foreign exchange rates, commodity and equity prices, volatility levels and the effect of time. These techniques vary by currency and are regularly changed to reflect factors affecting the derivatives portfolio. The results from these analyses are regularly reviewed by AIG management.

As described above, Capital Markets operations are 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 as well as implied volatilities thereon. AIG statistically measures the losses of fair value through the application of a VaR model across Capital Markets.

Capital Markets 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. The VAR calculation is unaffected by the accounting treatment of hedged transactions under FAS 133.

In the calculation of VaR for Capital Markets operations, AIG uses the same historical simulation methodology, described under Insurance above, which entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. AIGFP has recently enhanced its library of factors by including implied option volatilities to construct the historical scenarios for simulation

The following table presents the VaR on a combined basis and of each component of Capital Markets risk as of March 31, 2005 and December 31, 2004. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

(in millions)	**2005**	2004
Combined	**$ 15**	$ 17
Interest rate	**11**	11
Currency	**3**	4
Equity	**5**	16
Commodity	**8**	7

The following table presents the average, high and low VaRs on a combined basis and of each component of Capital Markets risk as of March 31, 2005 and December 31, 2004. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

	2005			2004		
(in millions)	**Average**	**High**	**Low**	Average	High	Low
Combined	**$ 16**	**$ 17**	**$ 15**	$ 19	$ 24	$ 13
Interest rate	**11**	**11**	**11**	9	12	5
Currency	**3**	**4**	**3**	4	4	3
Equity	**11**	**16**	**5**	13	16	5
Commodity	**8**	**8**	**7**	6	7	4

Recent Accounting Standards

At the March 2004 meeting, the Emerging Issue Task Force (EITF) reached a consensus with respect to Issue No. 03-1, “The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments.” On September 30, 2004, the FASB issued FASB Staff Position (FSP) EITF Issue 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.”

At the September 2004 meeting, the EITF reached a consensus with respect to Issue No. 04-8, “Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share.”

In December 2004, the FASB issued Statement No. 123 (revised 2004) (FAS 123R), "Share Based Payment." In April 2005, the SEC delayed the effective date for the revised FAS No. 123.

In March 2005, FASB issued FSP FIN46R-5 "Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities."

For further discussion of these recent accounting standards and their application to AIG, see Note 8 of Notes to Financial Statements.

Controls and Procedures

As of March 31, 2005, an evaluation was carried out by AIG's management, with the participation of AIG's current Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on its evaluation, which included comparisons to the criteria in Internal Control – Integrated Framework – issued by the Committee of Sponsoring Organizations of the Treadway Commission, and in light of the previously identified material weaknesses in internal control over financial reporting described within the 2004 Annual Report on Form 10-K, and the inability to file this Quarterly Report on Form 10-Q within the statutory time period, AIG's Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2005, AIG's disclosure controls and procedures were ineffective.

Earlier in 2005, in connection with the preparation of AIG's consolidated financial statements to be included in the 2004 Annual Report on Form 10-K, AIG's current management initiated an internal review of AIG's books and records, which was substantially expanded in mid-March 2005. As a result of the findings of that review, together with the results of investigations conducted by outside counsel at the request of AIG's Audit Committee, and in consultation with AIG's independent registered public accounting firm, AIG has restated its audited consolidated financial statements for the years ended December 31, 2003, 2002, 2001 and 2000 and its unaudited condensed consolidated financial statements for the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003. AIG is actively engaged in the implementation of remediation efforts to address the material weaknesses in AIG's internal control over financial reporting as of December 2004. These remediation efforts are outlined in the 2004 Annual Report on Form 10-K and further remediation developments will be described in future filings with the SEC.

PART II – OTHER INFORMATION

ITEM 1. Legal Proceedings

There have been no material developments in the legal proceedings described in Legal Proceedings in the 2004 Annual Report on Form 10-K, which was filed on May 31, 2005.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information with respect to purchases of AIG Common stock during the three months ended March 31, 2005.

Period	Total Number of Shares Purchased*(1)*	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs at End of Month*(2)*
January 1 - 31, 2005	673,100	$ 66.11	673,100	38,346,700
February 1 - 29, 2005	1,304,000	67.11	1,304,000	37,042,700
March 1 - 31, 2005	500,000	65.24	500,000	36,542,700
Total	2,477,100	$ 66.46	2,477,100	

(1) Does not include 23,386 shares delivered or attested to in satisfaction of the exercise price by holders of AIG employee stock options exercised during the three months ended March 31, 2005.

(2) On July 19, 2002, AIG announced that its Board of Directors had authorized the open market purchase of up to 10 million shares of common stock. On February 13, 2003, AIG announced that the Board had expanded the existing program through the authorization of an additional 50 million shares. The purchase program has no set expiration or termination date.

ITEM 5. Other Information

On June 27, 2005, AIG entered into definitive employment agreements with Messrs. Martin J. Sullivan, President and Chief Executive Officer, Donald P. Kanak, Executive Vice President and Chief Operating Officer, and Steven J. Bensinger, Executive Vice President and Chief Financial Officer, and assurance agreements relating to AIG's agreement to, subject to certain conditions, assure the payment and/or delivery obligations of Starr and SICO to eligible AIG employees. In addition, the AIG Board of Directors previously approved the terms of an executive severance plan that became effective June 27, 2005. The aforementioned agreements and the executive severance plan are filed as exhibits to this Form 10-Q and incorporated into this Item 5, and are described in AIG's Proxy Statement, dated June 27, 2005.

ITEM 6. Exhibits

See accompanying Exhibit Index.

SIGNATURE

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/ STEVEN J. BENSINGER

Steven J. Bensinger
Executive Vice President and Chief Financial Officer

Dated: June 28, 2005

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EXHIBIT INDEX

Exhibit Number	Description	Location
3(ii)(a)	By-laws	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed on March 17, 2005.
3(ii)(b)	By-laws	Incorporated by reference to Exhibit 3.1 to AIG's Current Report on Form 8-K filed June 20, 2005.
4	Instruments defining the rights of security holders, including indentures	Certain instruments defining the rights of holders of long-term debt securities of AIG and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. AIG hereby undertakes to furnish to the Commission, upon request, copies of any such instruments.
10	Material contracts	
	(1) Employment Agreement between AIG and Martin J. Sullivan, dated as of June 27, 2005.	Filed herewith.
	(2) Employment Agreement between AIG and Donald P. Kanak, dated as of June 27, 2005.	Filed herewith.
	(3) Employment Agreement between AIG and Steven J. Bensinger, dated as of June 27, 2005.	Filed herewith.
	(4) Executive Severance Plan, effective as of June 27, 2005.	Filed herewith.
	(5) Assurance Agreement, by AIG in favor of eligible employees, dated as of June 27, 2005, relating to certain obligations of C.V. Starr & Co., Inc.	Filed herewith.
	(6) Assurance Agreement, by AIG in favor of eligible employees, dated as of June 27, 2005, relating to certain obligations of Starr International Company, Inc.	Filed herewith.
11	Statement re computation of per share earnings	Included in Note (3) of Notes to Financial Statements.
12	Statement re computation of ratios	Filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications	Filed herewith.

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Ex. 10(1)

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement"), is entered into as of June 27, 2005, by and between American International Group, Inc., a Delaware corporation (the "Company"), and Martin J. Sullivan ("Executive").

WHEREAS, Executive is currently employed by the Company as its President and Chief Executive Officer pursuant to that certain employment letter dated as of March 16, 2005 (the "Employment Letter"); and

WHEREAS, as of the date of this Agreement, the Company wishes to continue Executive's employment as President and Chief Executive Officer under the terms of a new employment agreement on the terms set forth herein, which shall supersede the Employment Letter; and

WHEREAS, Executive desires to enter into such agreement; and

WHEREAS, Executive's employment as the Company's President and Chief Executive Officer is a promotion from his position with the Company prior to March 14, 2005, and the Board of Directors of the Company (the "Board") has acknowledged that Executive has been performing his duties as President and Chief Executive Officer under conditions at the Company that are demanding both in terms of the time commitment required and the unique circumstances facing the Company as of the date of this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties hereby agree as follows:

1. Term of Employment. Subject to the provisions of Section 9 of this Agreement, this Agreement shall be effective for a term commencing as of March 14, 2005 (the "Effective Date") and ending on the day immediately preceding the third anniversary of the Effective Date (the "Employment Term").

2. Position.

(a) Executive shall serve as President and Chief Executive Officer of the Company. In such position, Executive shall have such duties and authority as are consistent therewith. Executive shall report to the Board.

(b) During the Employment Term, Executive will devote his full business time and best efforts to the performance of his duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services, either directly or indirectly, without the prior written consent of the Board; provided, that nothing herein shall preclude Executive, subject to the prior approval of the Board, from accepting appointment to or continuing to serve on any board of directors or trustees of any business corporation or any charitable or not-for-profit organization or from managing his personal, financial and legal affairs; provided, in each case,

and in the aggregate, that such activities do not conflict or interfere with the performance of Executive's duties hereunder or conflict with Section 11 of this Agreement in any material respect.

3. Base Salary and Non-Variable Compensation.

(a) Base Salary. During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of $1,000,000, payable in regular installments in accordance with the Company's usual payroll practices. The Base Salary shall be retroactive to the Effective Date. During the Employment Term, the Compensation Committee of the Board (the "Compensation Committee") shall review the Base Salary annually and may increase the Base Salary, and the term "Base Salary" shall refer to such increased amount.

(b) Non-Variable Compensation. Executive shall receive an additional cash payment with respect to each of fiscal years 2005, 2006 and 2007, in addition to any other amounts described in this Agreement, in an amount equal to the excess, if any, of (i) $1,125,000 over (ii) the aggregate of all (A) supplemental quarterly interim cash bonuses in respect of the Company's long-term compensation arrangements or otherwise paid in respect of the applicable fiscal year, which shall be paid consistent with past practice, (B) payments, if any, during the applicable fiscal year for service as a director of C.V. Starr & Co., Inc. ("Starr") and Starr International Company, Inc. and (C) cash dividends received in respect of the fiscal year, or with respect to the prior fiscal year to the extent not previously taken into account in respect of this clause (C), on common and preferred stock of Starr held by Executive, which compensation shall be paid no later than March 31 of the fiscal year following each of fiscal years 2005, 2006 and 2007. This amount shall be payable in respect of fiscal year 2007 irrespective of the expiration of the Employment Term on the day immediately preceding the third anniversary of the Effective Date, if such amount has not been paid by such time.

4. Bonuses.

(a) Transition Bonus. The Company shall pay Executive a transition bonus, in cash, in an amount equal to $4,875,000 (the "Transition Bonus"), which shall be paid in four equal installments on, or as soon as reasonably practicable following, each of the following dates, whether or not Executive is employed by the Company on such dates, unless Executive's employment has been terminated by the Company for "Cause" or by Executive without "Good Reason" (as such terms are defined below): (i) the date Executive and the Company sign this Agreement, and (ii) the last day of each of the second, third and fourth fiscal quarters of the Company in 2005. If Executive's employment is terminated for any reason other than by the Company for Cause or by Executive without Good Reason before any payment date set forth in the preceding sentence, then, if necessary to avoid the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to any such unpaid portion of the Transition Bonus, Executive shall not receive any such amounts until the first scheduled payroll date that occurs more than six months following the date of termination of employment (the "First Payment Date") and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all amounts that would have been payable following termination of

employment in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A.

(b) Annual Bonus. Executive may receive an additional annual cash bonus in respect of each full or partial fiscal year of the Company during the Employment Term, as determined in the sole discretion of the Compensation Committee based on its assessment of Company and individual performance in relation to performance targets, a subjective evaluation of Executive's performance and/or such other criteria as may be established by it (the "Annual Bonus"). Notwithstanding the foregoing, during the Employment Term, Executive shall be eligible, with respect to each of fiscal years 2006 and 2007, for an annual cash bonus based on the attainment of targets established by the Compensation Committee, which, together with the target value of any long-term or equity-based award in respect of such year (as described in Section 5), shall have a total target value of $12,875,000.

5. Long-Term and Equity-Based Incentives. During the Employment Term, Executive shall be eligible to participate in any long-term incentive compensation plans or equity-based compensation plans maintained by the Company on such basis as may be determined by the Compensation Committee; provided that, as of a date that is not later than March 31, 2006, Executive shall be granted awards in respect of fiscal year 2005 having a value, determined at the date of grant, as reasonably determined by the Compensation Committee, of no less than the excess of (A) $8,000,000 over (B) the sum of (i) the grant date value (as reasonably determined by the Compensation Committee in the same manner) of Company stock options and other equity awards granted to Executive no later than December 31, 2005, in respect of fiscal year 2005, (ii) the annualized fiscal year 2005 grant value (as reasonably determined by the Compensation Committee) of any award made to Executive pursuant to a Company arrangement intended to be in lieu of Executive's participation in the Starr International Company, Inc. Deferred Compensation Profit Participation Plan and (iii) the value (as reasonably determined by the Compensation Committee) of any additional shares of preferred stock awarded to Executive with respect to fiscal year 2005 by Starr and any growth in book value in respect of 2005 attributable to any common stock of Starr held by Executive. In the event that any shares pursuant to clause (iii) of the preceding sentence have not been awarded, or increase in book value determined, by Starr by March 31, 2006, the Company shall grant Executive a long-term or equity-based award having a value, as reasonably determined by the Compensation Committee, equal to the excess of (X) $8,000,000 over (Y) the value of the awards described in clauses (i) and (ii) of the preceding sentence. Notwithstanding anything to the contrary in this Section 5, during the Employment Term, Executive shall be eligible, with respect to each of fiscal years 2006 and 2007, for a long-term or equity-based award, which, together with any annual cash bonus target in respect of such year (as described in Section 4(b)), shall have a total target value (as reasonably determined by the Compensation Committee) of $12,875,000. The amount actually awarded in respect of 2006 and 2007 shall be offset by the value of (I) awards described in clause (B) of the first sentence of this Section 5, but substituting 2006 or 2007, as applicable, for 2005 in such clause and (II) any shares awarded, or increase in book value determined, in accordance with such clause (B) in respect of the applicable year but later than March 31 of the subsequent year.

6. Employee Benefits. During the Employment Term, Executive shall be entitled to participate in the Company's employee benefit plans (other than any severance or change-in-control plan) as in effect from time to time on the same basis as those benefits are generally made available to other senior executives of the Company.

7. Vacation. Executive shall be entitled to four (4) weeks annual paid vacation in accordance with the vacation policy of the Company.

8. Business Expenses and Perquisites.

(a) Expenses. During the Employment Term, reasonable business expenses incurred by Executive in the performance of his duties hereunder shall be reimbursed by the Company in accordance with Company policies.

(b) Perquisites. During the Employment Term, Executive shall be entitled to participate in all of the Company's perquisite plans, programs and arrangements that are generally provided by the Company to other senior executives from time to time, including, without limitation, the provision of financial and tax planning assistance.

9. Termination. Notwithstanding any other provision of the Agreement:

(a) For Cause by the Company. The Employment Term, and Executive's employment hereunder, may be terminated at any time by the Company for Cause upon delivery of a "Notice of Termination" (as defined in Section 9(f)) by the Company to Executive. For purposes of this Agreement, "Cause" shall mean, whether occurring prior to, or on or after the Effective Date, (i) Executive's willful and continued failure to perform substantially his duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness) for a period of 10 days after a written demand for substantial performance is delivered to Executive by the Board, which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties, (ii) Executive's willful malfeasance or willful misconduct that results in substantial damage to the Company, (iii) Executive's willful and material violation of a material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics, as such codes of conduct may be in effect from time to time, or other policies regarding behavior of employees, (iv) conviction of, or entry of a plea of guilty or no contest by Executive with respect to, a felony or any lesser crime of which fraud or dishonesty is a material element, (v) any willful failure by Executive to comply with a material provision of Section 11 of this Agreement, or (vi) Executive's breach of Section 14 of this Agreement.

For purposes of this provision, no act or failure to act on the part of Executive, shall be considered "willful" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Board or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be

done, by Executive in good faith and in the best interests of the Company. The cessation of employment of Executive shall not be deemed to be for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a simple majority of the members of the Board (other than Executive, if he is a member of the Board) at a meeting of the Board called and held for such purpose (after reasonable notice is provided to Executive, and Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, Executive is guilty of the conduct described in clauses (i), (ii), (iii), (v) or (vi) above, and specifying the particulars thereof in detail; provided, that, no such resolution shall be required for any termination for Cause due to the conduct described in clause (iv) above.

If Executive is terminated for Cause pursuant to this Section 9(a), he shall be entitled to receive only his Base Salary through the date of termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination, and he shall have no further rights to any compensation (including any Base Salary, Transition Bonus, Annual Bonus (including any Annual Bonus that has been declared but not yet paid), payments from the Company pursuant to Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination of employment for Cause pursuant to this Section 9(a) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(b) Disability or Death. The Employment Term, and Executive's employment hereunder, shall terminate immediately upon Executive's death or following delivery of a Notice of Termination by the Company to Executive if Executive becomes physically or mentally incapacitated and is therefore unable for a period of ninety (90) consecutive days or one-hundred twenty (120) days during any consecutive six (6) month period to perform his duties with substantially the same level of quality as immediately prior to such incapacity (such incapacity is hereinafter referred to as "Disability"). Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive (i) his Base Salary through the last day of the payroll period during which such termination occurs; (ii) any declared but unpaid Annual Bonus for any fiscal year preceding the year in which the termination occurs; (iii) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination (the sum of (i), (ii) plus (iii), the "Accrued Obligations"); (iv) a pro rata portion of any Annual Bonus that Executive would have been entitled to receive pursuant to Section 4(b) of this Agreement with respect to the fiscal year of termination based upon the percentage of the fiscal year that shall have elapsed through the date of Executive's termination of employment, and determined by using (X) the Transition Bonus, if such termination occurs during fiscal year 2005, and reducing the pro rata portion of the Transition Bonus by the aggregate amount of all installments of the Transition Bonus that have been paid through the date of termination, or (Y) Executive's target Annual Bonus for the fiscal year of such termination, if such termination occurs following the end of fiscal year 2005 (the "Pro-Rata Bonus"), payable as soon as reasonably practicable following the date of Executive's

termination of employment, and (v) in the case of a termination due to Disability, continuation of the Base Salary in effect on the date of termination until the earlier of (A) the second anniversary of the date of termination, and (B) the date Executive is eligible to commence receiving payments under the Company's long-term disability policy. Notwithstanding the foregoing, in the event of Executive's termination of employment due to Disability, if necessary to avoid the application of Section 409A of the Code to the amounts payable pursuant to clauses (iv) and (v) of the preceding sentence, Executive shall not receive any such amounts until the First Payment Date and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all amounts that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A. Executive or Executive's estate (as the case may be) shall have no further rights to any compensation (including any Base Salary, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination for Disability or death shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive (or his estate, as the case may be) shall not participate in any severance plan, policy or program of the Company.

(c) Without Cause by the Company or for Good Reason by Executive. The Employment Term, and Executive's employment hereunder, may be terminated by the Company without Cause (other than by reason of Executive's Disability) following the delivery by the Company of a Notice of Termination to Executive or by Executive for Good Reason following the delivery by Executive of a Notice of Termination to the Company. The expiration of the Employment Term on the date immediately preceding the third anniversary of the Effective Date shall not be considered a termination without Cause under this Agreement or otherwise result in the payment of severance or post-employment benefits pursuant to Section 9(c) of this Agreement if Executive is not otherwise terminated pursuant to Section 9(c) of this Agreement prior to such date. If Executive's employment is terminated by the Company without Cause (other than by reason of Disability) or by Executive for Good Reason, Executive shall be entitled to receive:

(i) within five (5) business days following termination, a lump sum payment in an amount equal to the Accrued Obligations;

(ii) the Pro-Rata Bonus, payable as soon as reasonably practicable following the date of Executive's termination of employment; provided, that, if necessary to avoid the application of Section 409A of the Code to the Pro Rata Bonus, Executive shall not receive any such Pro Rata Bonus installment until the First Payment Date;

(iii) subject to Executive's continued compliance with Section 11 of this Agreement, an amount equal to the greater of (A) $15,000,000, and (B) an amount equal to the sum of (I) three times the Base Salary (at the rate in effect immediately prior to termination) and (II) three times the actual Annual Bonus paid with respect to the preceding fiscal year (any such amount shall be referred to in this Agreement as the "Severance"); provided that, for purposes of this sentence, an Annual Bonus shall be deemed to be "paid" at the time that Executive receives an amount in respect thereof at the time that Annual Bonuses are paid to other

senior executives of the Company. The Severance shall be payable in equal installments (each, a "Severance Installment") over the twelve (12) month period (eighteen (18) month period in the event of a termination by Executive for Good Reason based on the circumstances described in clause (iv) or clause (v) under the definition of Good Reason in this Section 9(c)) commencing with the second of the Company's standard payroll dates falling after such termination; provided, however, that, if necessary to avoid the application of Section 409A of the Code to the Severance, Executive shall not receive any installment payment until the First Payment Date, and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all Severance Installments that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A;

(iv) continued health and life insurance benefits for Executive and his spouse and dependents, if any, for a thirty six (36) month period following the date of Executive's termination of employment, on the same basis as such benefits are provided from time to time to actively employed senior executives of the Company; provided, that the Company's obligation to provide such health and life insurance benefits shall cease with respect to such benefits at the time Executive becomes eligible for such benefits from another employer;

(v) three years of additional service credit and credit for three years of additional age under the Company's employee pension plans, except for under any plan that is qualified or intended to be qualified under the provisions of Section 401 of the Code, for purposes of benefit accrual, matching contributions, vesting and eligibility for retirement. For the avoidance of doubt, no amounts provided in Section 9(c)(ii) or (iii) of this Agreement shall be included in such calculation, and Executive shall not be entitled to receive any payments pursuant to any non-qualified pension plan of the Company until expiration of the thirty six (36) month period following the Executive's termination of employment under this Section 9(c); and

(vi) if, as of the date of such termination, (a) Executive is not eligible to participate in any retiree medical or life insurance program of the Company and (b) Executive would have at least 10 years of service with the Company and reached at least age 55 if credited with three years of additional age and service, then the Company shall purchase for Executive a medical and/or life insurance policy, as applicable, that provides coverage that is as comparable as is commercially available to the coverage under the retiree medical and/or retiree life insurance program of the Company, as applicable, as in effect as of the date of Executive's termination of employment. For the avoidance of doubt, nothing in this Section 9(c)(vi) shall provide Executive with any extra age or service credit for purposes of eligibility or for any other purpose under any retiree medical or life insurance program of the Company.

Notwithstanding anything to the contrary in this Agreement, no further payments or benefits shall be due under this Section 9(c) if, at any time after Executive's employment is terminated pursuant to this Section 9(c) and prior to the time when any payment is made or benefit provided pursuant to this Section 9(c), the Board determines, in accordance with the procedures set forth in Section 9(a) of this Agreement, that grounds existed, on or prior to the date of termination of Executive's employment with the Company, including prior to the Effective Date, for the Company to terminate Executive's employment for Cause; provided, however, that, Executive shall in all events be entitled to receive his Base Salary through the date

of termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination.

Executive shall have no rights to any further compensation (including any Base Salary, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following a termination pursuant to this Section 9(c) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company. Executive and the Company acknowledge that any payments and benefits provided to Executive under clauses (ii) through (vi) of this Section 9(c) relate solely to services rendered by Executive to the Company on and after the Effective Date.

For purposes of this Agreement, "Good Reason" means:

(i) any change in the duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material and adverse respect with Executive's current position(s), duties, responsibilities or status with the Company (including any material and adverse diminution of such duties or responsibilities); provided, however, that Good Reason shall not be deemed to occur pursuant to this clause (i) solely on account of the Company no longer being a publicly traded entity or on account of any change to Executive's duties as a result of his physical or mental incapacity;

(ii) a material and adverse change in Executive's titles or offices (including his position as President and Chief Executive Officer) with the Company; provided, however, that Good Reason shall not be deemed to occur pursuant to this clause (ii) on account of any change to Executive's titles or offices as a result of his physical or mental incapacity;

(iii) any material breach of this Agreement by the Company;

(iv) the failure of the Compensation Committee to adopt, by December 31, 2005 (or such later date mutually agreed by Executive and the Compensation Committee), an incentive compensation program in respect of each of the 2006 and 2007 fiscal years setting forth target awards that are, in the aggregate, no less than $12,875,000 and, as and if appropriate to the award type, performance metrics and payout schedules for earning target, above-target, or below-target award amounts;

(v) within 30 days following notice by the Compensation Committee to Executive of adoption of an incentive compensation program in respect of each of the 2006 and 2007 fiscal years, Executive's written notification to the Compensation Committee that such program is not acceptable to Executive;

(vi) any failure of the shareholders to re-elect Executive as a member of the Board or any failure of the Board to re-nominate Executive for election to the Board;

(vii) any failure of the Board to consult with Executive prior to appointing a Chairman of the Board to replace the member of the Board holding such position on the Effective Date; or

(viii) the relocation of Executive's primary office to a location that is more than thirty five (35) miles from both of (A) the Company's headquarters in New York, New York, unless such office is moved closer to Executive's primary residence at the time of such relocation, and (B) Executive's residence at the time of such relocation;

provided that, a termination by Executive with Good Reason shall be effective only if, within thirty (30) days following Executive's first becoming aware of the circumstances giving rise to Good Reason, Executive delivers a Notice of Termination for Good Reason by Executive to the Company, and the Company within thirty (30) days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason.

(d) Termination by Executive without Good Reason. The Employment Term, and Executive's employment hereunder, may be terminated by Executive without Good Reason following the delivery of a Notice of Termination to the Company. Upon a termination by Executive pursuant to this Section 9(d), Executive shall be entitled to his Base Salary through the date of such termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination, and he shall have no rights to any further compensation (including any Base Salary, Transition Bonus, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following termination pursuant to this Section 9(d) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(e) Release. Notwithstanding any other provision of this Agreement to the contrary, Executive acknowledges and agrees that any and all payments and benefits to which Executive is entitled under Section 9(b) or Section 9(c) of this Agreement are conditional upon and subject to Executive's execution of a general release and waiver, substantially in the form attached as Exhibit A hereto, of all claims Executive may have against the Company and its directors, officers and affiliates, except as to matters covered by provisions of this Agreement that expressly survive the termination of this Agreement.

(f) Notice of Termination. Any purported termination of employment by the Company or Executive, other than any termination due to Executive's death, shall be communicated by a written Notice of Termination to Executive or the Company, respectively, delivered in accordance with Section 15(i) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in the Agreement relied upon, the date of termination, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. The date of termination of Executive's employment shall be the date so stated in the Notice of Termination, which date, in the event of a termination by Executive pursuant to

Section 9(d), shall be no less than sixty (60) days following the delivery of a Notice of Termination; provided, however, that in the case of a termination for Cause by the Company, the date of termination shall be the date the Notice of Termination is delivered in accordance with Section 15(i).

(g) Continuation of Employment; Termination On or After Expiration of Employment Term. Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company beyond the expiration of the Employment Term shall be deemed an employment at will and shall not be deemed to extend any of the provisions of this Agreement, and Executive's employment may thereafter be terminated at will by Executive or the Company. The expiration of the Employment Term on the date immediately preceding the third anniversary of the Effective Date shall not be cause for the payment of severance or post-employment benefits pursuant to this Agreement if Executive is not otherwise terminated pursuant to Section 9 of this Agreement prior to such date.

10. Certain Additional Payments by the Company.

(a) If it is determined (as hereafter provided) that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement of the Company, including without limitation any restricted stock, stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto), or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then the Executive will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 10(f) of this Agreement, all determinations required to be made under this Section 10, including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") chosen by the Company. The Company will direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive within fifteen (15) calendar days after the date of the event giving rise to the Payment or the date of Executive's termination of employment, if applicable, and any other such time or times as may be requested by the Company or Executive. If the Accounting Firm determines that any Excise Tax is payable by Executive, the Company will pay the required Gross-Up Payment to Executive within five (5) business days after receipt of such determination and calculations. If the Accounting Firm determines that no Excise Tax is payable by Executive, it will, at the same time as it makes such determination, furnish Executive

with an opinion that he has substantial authority not to report any Excise Tax on his federal, state, local income or other tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment will be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 10(f) hereof and Executive thereafter is required to make a payment of any Excise Tax, Executive will direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible. Any such Underpayment will be promptly paid by the Company to, or for the benefit of, Executive within five (5) business days after receipt of such determination and calculations.

(c) The Company and Executive will each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determination contemplated by Section 10(b) of this Agreement.

(d) The federal, state and local income or other tax returns filed by Executive will be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive will make proper payment of the amount of any Excise Tax, and, at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service (the "IRS") and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, Executive will, within five (5) business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 10(b) and Section 10(d) of this Agreement will be borne by the Company and paid as incurred. If such fees and expenses are initially advanced by Executive, the Company will reimburse Executive the full amount of such fees and expenses within five (5) business days after receipt from Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) Executive will notify the Company in writing of any claim by the IRS that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification will be given as promptly as practicable but no later than ten (10) business days after Executive actually receives notice of such claim and Executive will further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by Executive). Executive will not pay such claim prior to the

earlier of (x) the expiration of the thirty (30) calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive will:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company will reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company will bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and will indemnify and hold harmless Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this Section 10(f), the Company will control all proceedings taken in connection with the contest of any claim contemplated by this Section 10(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided that Executive may participate therein at his own cost and expense) and may, at its option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company will determine; provided, that if the Company directs Executive to pay the tax claimed and sue for a refund, the Company will advance the amount of such payment to Executive on an interest-free basis and will indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company’s control of any such contested claim will be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive will be entitled to settle or contest, as the case may be, any other issue raised by the IRS or any other taxing authority.

(g) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 10(f) hereof, Executive receives any refund with respect to such claim, Executive will (subject to the Company’s complying with the requirements of

Section 10(f) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 10(f) hereof, a determination is made that Executive will not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial or refund prior to the expiration of thirty (30) calendar days after such determination, then such advance will be forgiven and will not be required to be repaid and the amount of such advance will offset, to the extent thereof, the amount of Gross-Up Payment required to be paid pursuant to this Section 10.

(h) If it is ultimately determined (by IRS private letter ruling or closing agreement, court decision or otherwise) that any Gross-Up Payments and/or advances and/or Underpayments and/or any other amounts paid or made by the Company pursuant to this Section 10 were not necessary to accomplish the purpose of this Section 10, the Executive shall promptly cooperate with the Company to correct such overpayments (by way of assigning any refund to the Company as provided herein, by direct repayment or otherwise) in a manner consistent with the purpose of this Section 10, which is to protect the Executive by making him whole, but not more than whole, on an after-tax basis, from the application of the Excise Tax.

11. Restrictive Covenants.

(a) Non-Competition/Non-Solicitation. Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its subsidiaries and controlled affiliates and accordingly agrees as follows:

(i) While employed by the Company and for a period of twelve (12) months (eighteen (18) months in the event of a termination by Executive for Good Reason based on the circumstances described in clause (iv) or clause (v) under the definition of Good Reason in Section 9(c) of this Agreement) following the date Executive ceases to be employed by the Company, if such termination occurs during the Employment Term (the "Restricted Period"), Executive will not directly or indirectly, (w) engage in any "Competitive Business" (defined below) for Executive's own account, (x) enter the employ of, or render any services to, any person engaged in any Competitive Business, (y) acquire a financial interest in, or otherwise become actively involved with, any person engaged in any Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, or (z) interfere with business relationships (whether formed before or after the Effective Date) between the Company and customers or suppliers of, or consultants to, the Company.

(ii) For purposes of this Section 11, a "Competitive Business" means, as of any date, including during the Restricted Period, any person or entity (including any joint venture, partnership, firm, corporation or limited liability company) that engages in or proposes to engage in the following activities in any geographical area in which the Company does business: (A) the property and casualty insurance business, including commercial insurance, business insurance, personal insurance and specialty insurance; (B) the life and accident and health insurance business; (C) the underwriting, reinsurance, marketing or sale of

(but not brokerage of) (y) any form of insurance of any kind that the Company as of such date does, or proposes to, underwrite, reinsure, market or sell (any such form of insurance, a "Company Insurance Product"), or (z) any other form of insurance that is marketed or sold in competition with any Company Insurance Product; (D) retirement services and mutual funds services; or (E) any other business that as of such date is a direct and material competitor of one of the Company's principal businesses.

(iii) For purposes of this Section 11, the Company shall be construed to include the Company and its subsidiaries and controlled affiliates.

(iv) Notwithstanding anything to the contrary in the Agreement, Executive may (A) directly or indirectly, own, solely as an investment, securities of any person engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (x) is not a controlling person of, or a member of a group which controls, such person and (y) does not, directly or indirectly, own one percent (1%) or more of any class of securities of such person, and (B) during the portion of the Restricted Period following termination of Executive's employment, be employed by or provide services to, any private equity firm or hedge fund, so long as Executive has no participation whatsoever in any fund invested in any business described in clauses (A) through (C) of Section 11(a)(ii) of this Agreement.

(v) During the Restricted Period, Executive will not, directly or indirectly, without the Company's written consent, solicit or encourage to cease to work with the Company any person who holds a position that is designated as a "senior partner" or "partner" for purposes of eligibility to participate in any deferred compensation profit participation program of the Company (or any similar designation in any successor or substitute plan or program (each, a "DCPPP Senior Partner or Partner"), any employee holding the title of Vice President or higher of the Company or any business unit of the Company, or any employee designated by the Company as a "core employee" or a similar designation (a "Key Employee") or any consultant whose primary business activity consists of providing services to the Company ("Key Consultant") or who was a Key Employee of or Key Consultant then under contract with the Company within the six (6) month period preceding such activity. In addition, during the Restricted Period, Executive will not, without the Company's written consent, directly or indirectly hire any person who is or who was, within the six (6) month period preceding such activity, a DCPPP Senior Partner or Partner.

(vi) Executive understands that the provisions of this Section 11(a) may limit his ability to earn a livelihood in a business similar to the business of the Company but he nevertheless agrees and hereby acknowledges that (A) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public and (D) such provisions are not unduly burdensome to Executive. In consideration of the foregoing and in light of Executive's education, skills and abilities, Executive agrees that he shall not assert that, and it should not be considered that, any provisions of Section 11(a) otherwise are void, voidable or unenforceable or should be voided or held unenforceable.

(vii) It is expressly understood and agreed that, although Executive and the Company consider the restrictions contained in this Section 11(a) to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Section 11(a) or elsewhere in this Agreement is an unenforceable restriction against Executive, the provisions of the Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(b) Nondisparagement. Executive agrees (whether during or after Executive's employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or the officers, directors or managers of the Company other than to the extent reasonably necessary in order to (i) assert a bona fide claim against the Company arising out of Executive's employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding. The Company agrees to instruct its directors and executives not to (whether during or after Executive's employment with the Company) issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about Executive other than to the extent reasonably necessary in order to (i) assert a bona fide claim against Executive arising out of Executive's employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding.

(c) Code of Conduct. Executive agrees to abide by the terms of the Company's Code of Conduct or The Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics.

(d) Confidentiality/Company Property. Executive shall not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity, any "Confidential Information" (as defined below) except while employed by the Company, in furtherance of the business of and for the benefit of the Company, or any "Personal Information" (as defined below); provided that Executive may disclose such information when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company and/or its affiliates, as the case may be, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information; provided, further, that in the event that Executive is ordered by a court or other government agency to disclose any Confidential Information or Personal Information, Executive shall (i) promptly notify the Company of such order, (ii) at the written request of the Company, diligently contest such order at the sole expense of the Company as expenses occur, and (iii) at the written request of the Company, seek to obtain, at the sole expense of the Company, such confidential treatment as may be available under applicable laws for any information disclosed under such order. For purposes of this Section 11(d),

(i) "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information relating to the business of the Company or its affiliates or customers, that, in any case, is not otherwise available to the public (other than by Executive's breach of the terms hereof) and (ii) "Personal Information" shall mean any information concerning the personal, social or business activities of the officers or directors of the Company. Upon termination of Executive's employment with the Company, Executive shall return all Company property, including, without limitation, files, records, disks and any media containing Confidential Information or Personal Information.

(e) Developments. All discoveries, inventions, ideas, technology, formulas, designs, software, programs, algorithms, products, systems, applications, processes, procedures, methods and improvements and enhancements conceived, developed or otherwise made or created or produced by Executive alone or with others, and in any way relating to the business or any proposed business of the Company of which Executive has been made aware, or the products or services of the Company of which Executive has been made aware, whether or not subject to patent, copyright or other protection and whether or not reduced to tangible form, at any time during the Employment Term ("Developments"), shall be the sole and exclusive property of the Company. Executive agrees to, and hereby does, assign to the Company, without any further consideration, all of Executive's right, title and interest throughout the world in and to all Developments. Executive agrees that all such Developments that are copyrightable may constitute works made for hire under the copyright laws of the United States and, as such, acknowledges that the Company is the author of such Developments and owns all of the rights comprised in the copyright of such Developments and Executive hereby assigns to the Company without any further consideration all of the rights comprised in the copyright and other proprietary rights Executive may have in any such Development to the extent that it might not be considered a work made for hire. Executive shall make and maintain adequate and current written records of all Developments and shall disclose all Developments promptly, fully and in writing to the Company promptly after development of the same, and at any time upon request.

(f) Cooperation. During the Employment Term and at any time thereafter, Executive agrees to cooperate (i) with the Company in the defense of any legal matter involving any matter that arose during Executive's employment with the Company and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative proceeding pertaining to the Company. The Company will reimburse Executive for any reasonable travel and out of pocket expenses incurred by Executive in providing such cooperation. The Company agrees to cooperate with the Executive in the same manner as described above.

12. Enforcement. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Sections 11(a), (b), (d) and (e) of this Agreement would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, the Company shall be entitled

to immediately cease paying any amounts remaining due or providing any benefits to Executive pursuant to Section 9 of this Agreement upon a determination by the Board that Executive has violated any provision of Section 11 (a), (b), (d), (e) or (f) of this Agreement, subject to payment of all such amounts upon a final determination, in accordance with the dispute resolution mechanism contained in Section 15 of this Agreement, that Executive had not violated Section 11 (a), (b), (d), (e) or (f) of this Agreement.

13. Indemnification. At all times during and after the Employment Term, the Company shall indemnify Executive to the fullest extent permitted by the law of the state of the Company's incorporation for all actions or omissions taken or made by Executive (whether before or after the date of this Agreement) in his service to the Company or its affiliated entities for which Executive has performed or does perform services at the request of the Company, including, to the fullest extent allowed by law, the advancement to Executive of all reasonable attorneys' costs and expenses incurred by Executive in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer or employee of the Company, within twenty (20) calendar days after receipt by the Company of a written request from Executive for such advance. Executive's request for advancement of attorneys' costs and expenses pursuant to the preceding sentence shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined pursuant to Section 15(b) of the Agreement that Executive is not entitled to be indemnified against such costs and expenses. Executive shall have the benefit of continuing directors' and officers' insurance coverage at levels no less favorable than those in effect from time to time for members of the Board and other members of the Company's senior management.

14. Executive Representation and Warranty. Executive hereby represents and warrants that, as of the date of this Agreement, during Executive's period of employment with the Company, Executive has not willfully or grossly negligently breached Executive's duties as an employee, officer or director of the Company, has not committed fraud, embezzlement or any other similar dishonest conduct in the course of his employment and has not willfully violated any material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics. As used in this Section 14, the term "willfully" shall be subject to the same limitations as the term "willful" in Section 9(a) of this Agreement.

15. Miscellaneous.

(a) No Mitigation or Offset. In the event of any termination of Executive's employment hereunder, Executive shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Agreement, and there shall be no offset against any amounts due under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(b) Arbitration. Except as provided in Section 11 of this Agreement, any dispute between the parties to this Agreement in connection with, arising out of or asserting breach of this Agreement or any statutory or common law claim by Executive relating to

Executive's employment under this Agreement or rights under this Agreement (including any tort or discrimination claim), shall be exclusively resolved by binding statutory arbitration. Such dispute shall be submitted to arbitration in New York, New York, before a panel of three neutral arbitrators in accordance with the Commercial Rules of the American Arbitration Association then in effect, and the arbitration determination resulting from any such submission shall be final and binding upon the parties hereto. Judgment upon any arbitration award may be entered in any court of competent jurisdiction.

(c) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE, WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISIONS OR THE CONFLICT OF LAWS PROVISIONS OF ANY OTHER JURISDICTION WHICH WOULD CAUSE THE APPLICATION OF ANY LAW OTHER THAN THAT OF THE STATE OF NEW YORK.

(d) Entire Agreement/Amendments. This Agreement contains the entire understanding of the parties with respect to the employment of Executive by the Company, and, without limiting the effect of the foregoing, specifically supersedes the Employment Letter. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not be altered, modified or amended except by written instrument signed by the parties hereto. Sections 3, 5, 9, 10, 11, 12, 13 and 15 of this Agreement shall survive the termination of Executive's employment with the Company, to the extent specifically stated therein.

(e) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(f) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(g) Successors.

(i) This Agreement is personal to Executive and shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors.

(ii) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the

business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, unless such assumption occurs by operation of law. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(h) Dispute Resolution Costs; Legal Fees. In the event of any contest or dispute relating to this Agreement or the termination of Executive's employment hereunder, the Company shall reimburse 100% of Executive's reasonable legal fees if Executive substantially prevails in such contest or dispute. The costs of any arbitration pursuant to Section 15(b) (including the fees and cost of the arbitrators) shall be paid by the Company.

(i) Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, if sent by facsimile transmission or if mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by United States registered mail shall be deemed given two days after the date of deposit in the United States mail.

If to Executive, to the address as shall most currently appear on the records of the Company

With a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Attn: Adam Chinn, Esq.
Fax: 212-403-2000

If to the Company, to:

American International Group, Inc.
70 Pine Street
New York, NY 10270
Fax: 212-770-1584
Attn: General Counsel

With a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attn: Michael J. Segal, Esq.
Fax: 212-757-3990

(j) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(k) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EXECUTIVE

/s/ Martin J. Sullivan
Martin J. Sullivan

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President, Secretary and Deputy General Counsel

EXHIBIT A

RELEASE OF CLAIMS

1. Release of Claims

In partial consideration of the payments and benefits described in Section 9 of the employment agreement (the "Employment Agreement"), effective March 14, 2005, by and between Martin J. Sullivan ("Executive") and American International Group, Inc. (the "Company"), to which Executive agrees Executive is not entitled until and unless he executes this Release, Executive, for and on behalf of himself and his heirs and assigns, subject to the following two sentences hereof, hereby waives and releases any employment, compensation or benefit-related common law, statutory or other complaints, claims, charges or causes of action of any kind whatsoever, both known and unknown, in law or in equity, which Executive ever had, now has or may have against the Company and its shareholders (other than C.V. Starr & Co., Inc. and Starr International Company, Inc.), subsidiaries, successors, assigns, directors, officers, partners, members, employees or agents (collectively, the "Releasees") by reason of facts or omissions which have occurred on or prior to the date that Executive signs this Release, including, without limitation, any complaint, charge or cause of action arising under federal, state or local laws pertaining to employment, including the Age Discrimination in Employment Act of 1967 ("ADEA," a law which prohibits discrimination on the basis of age), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans With Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, all as amended; and all other federal, state and local laws and regulations. By signing this Release, Executive acknowledges that he intends to waive and release any rights known or unknown that he may have against the Releasees under these and any other laws; provided, that Executive does not waive or release claims with respect to the right to enforce the Employment Agreement (the "Unreleased Claims"). Notwithstanding the foregoing, Executive does not release, discharge or waive any rights to indemnification that he may have under the certificate of incorporation, the by-laws or equivalent governing documents of the Company or its subsidiaries or affiliates, the laws of the State of Delaware or any other state of which such subsidiary or affiliate is a domiciliary, or any indemnification agreement between Executive and the Company, or any rights to insurance coverage under any directors' and officers' personal liability insurance or fiduciary insurance policy.

2. Proceedings

Executive acknowledges that he has not filed any complaint, charge, claim or proceeding, except with respect to an Unreleased Claim, if any, against any of the Releasees before any local, state or federal agency, court or other body (each individually a "Proceeding"). Executive represents that he is not aware of any basis on which such a Proceeding could reasonably be instituted. Executive (i) acknowledges that he will not initiate or cause to be initiated on his behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (ii) waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). Further, Executive understands that, by executing

this Release, he will be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Releasees. Notwithstanding the above, nothing in Section 1 of this Release shall prevent Executive from (i) initiating or causing to be initiated on his behalf any complaint, charge, claim or proceeding against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of his claims under the ADEA contained in Section 1 of this Release (but no other portion of such waiver); or (ii) initiating or participating in an investigation or proceeding conducted by the EEOC.

3. Time to Consider

Executive acknowledges that he has been advised that he has twenty-one (21) days from the date of receipt of this Release to consider all the provisions of this Release and he does hereby knowingly and voluntarily waive said given twenty-one (21) day period. EXECUTIVE FURTHER ACKNOWLEDGES THAT HE HAS READ THIS RELEASE CAREFULLY, HAS BEEN ADVISED BY THE COMPANY TO, AND HAS IN FACT, CONSULTED AN ATTORNEY, AND FULLY UNDERSTANDS THAT BY SIGNING BELOW HE IS GIVING UP CERTAIN RIGHTS WHICH HE MAY HAVE TO SUE OR ASSERT A CLAIM AGAINST ANY OF THE RELEASEES, AS DESCRIBED IN SECTION 1 OF THIS RELEASE AND THE OTHER PROVISIONS HEREOF. EXECUTIVE ACKNOWLEDGES THAT HE HAS NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS RELEASE, AND EXECUTIVE AGREES TO ALL OF ITS TERMS VOLUNTARILY.

4. Revocation

Executive hereby acknowledges and understands that Executive shall have seven (7) days from the date of his execution of this Release to revoke this Release (including, without limitation, any and all claims arising under the ADEA) and that neither the Company nor any other person is obligated to provide any benefits to Executive pursuant to Section 9 of the Employment Agreement until eight (8) days have passed since Executive’s signing of this Release without Executive having revoked this Release, in which event the Company immediately shall arrange and/or pay for any such benefits otherwise attributable to said eight- (8) day period, consistent with the terms of the Employment Agreement. If Executive revokes this Release, Executive will be deemed not to have accepted the terms of this Release, and no action will be required of the Company under any section of this Release.

5. No Admission

This Release does not constitute an admission of liability or wrongdoing of any kind by Executive or the Company.

6. General Provisions

A failure of any of the Releasees to insist on strict compliance with any provision of this Release shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Release is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable, and in the event that any provision is determined to be entirely unenforceable, such provision shall be deemed severable, such that all other provisions of this Release shall remain valid and binding upon Executive and the Releasees.

7. Governing Law

The validity, interpretations, construction and performance of this Release shall be governed by the laws of the State of New York without giving effect to conflict of laws principles.

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand as of the day and year set forth opposite his signature below.

______________________________	______________________________
DATE	Martin J. Sullivan

Ex. 10(2)

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement"), is entered into as of June 27, 2005, by and between American International Group, Inc., a Delaware corporation (the "Company"), and Donald P. Kanak ("Executive").

WHEREAS, Executive is currently employed by the Company as its Executive Vice Chairman and Chief Operating Officer pursuant to that certain employment letter dated as of March 16, 2005 (the "Employment Letter"); and

WHEREAS, as of the date of this Agreement, the Company wishes to continue Executive's employment as Executive Vice Chairman and Chief Operating Officer under the terms of a new employment agreement on the terms set forth herein, which shall supersede the Employment Letter; and

WHEREAS, Executive desires to enter into such agreement; and

WHEREAS, Executive's employment as the Company's Executive Vice Chairman and Chief Operating Officer is a promotion from his position with the Company prior to March 14, 2005, and the Board of Directors of the Company (the "Board") has acknowledged that Executive has been performing his duties as Executive Vice Chairman and Chief Operating Officer under conditions at the Company that are demanding both in terms of the time commitment required and the unique circumstances facing the Company as of the date of this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties hereby agree as follows:

1. Term of Employment. Subject to the provisions of Section 9 of this Agreement, this Agreement shall be effective for a term commencing as of March 14, 2005 (the "Effective Date") and ending on the day immediately preceding the third anniversary of the Effective Date (the "Employment Term").

2. Position.

(a) Executive shall serve as Executive Vice Chairman and Chief Operating Officer of the Company. In such position, Executive shall have such duties and authority as are consistent therewith. Executive shall report to the Company's Chief Executive Officer.

(b) During the Employment Term, Executive will devote his full business time and best efforts to the performance of his duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services, either directly or indirectly, without the prior written consent of the Board; provided, that nothing herein shall preclude Executive, subject to the prior approval of the Board, from accepting appointment to or continuing to serve on any

board of directors or trustees of any business corporation or any charitable or not-for-profit organization or from managing his personal, financial and legal affairs; provided, in each case, and in the aggregate, that such activities do not conflict or interfere with the performance of Executive's duties hereunder or conflict with Section 11 of this Agreement in any material respect.

3. Base Salary and Non-Variable Compensation.

(a) Base Salary. During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of $800,000, payable in regular installments in accordance with the Company's usual payroll practices. The Base Salary shall be retroactive to the Effective Date. During the Employment Term, the Compensation Committee of the Board (the "Compensation Committee") shall review the Base Salary annually and may increase the Base Salary, and the term "Base Salary" shall refer to such increased amount.

(b) Non-Variable Compensation. Executive shall receive an additional cash payment with respect to each of fiscal years 2005, 2006 and 2007, in addition to any other amounts described in this Agreement, in an amount equal to the excess, if any, of (i) $1,000,000 over (ii) the aggregate of all (A) supplemental quarterly interim cash bonuses in respect of the Company's long-term compensation arrangements or otherwise paid in respect of the applicable fiscal year, which shall be paid consistent with past practice, (B) payments, if any, during the applicable fiscal year for service as a director of C.V. Starr & Co., Inc. ("Starr") and Starr International Company, Inc. and (C) cash dividends received in respect of the fiscal year, or with respect to the prior fiscal year to the extent not previously taken into account in respect of this clause (C), on common and preferred stock of Starr held by Executive, which compensation shall be paid no later than March 31 of the fiscal year following each of fiscal years 2005, 2006 and 2007. This amount shall be payable in respect of fiscal year 2007 irrespective of the expiration of the Employment Term on the day immediately preceding the third anniversary of the Effective Date, if such amount has not been paid by such time.

4. Bonuses.

(a) Transition Bonus. The Company shall pay Executive a transition bonus, in cash, in an amount equal to $1,100,000 (the "Transition Bonus"), which shall be paid in four equal installments on, or as soon as reasonably practicable following, each of the following dates, whether or not Executive is employed by the Company on such dates, unless Executive's employment has been terminated by the Company for "Cause" or by Executive without "Good Reason" (as such terms are defined below): (i) the date Executive and the Company sign this Agreement, and (ii) the last day of each of the second, third and fourth fiscal quarters of the Company in 2005. If Executive's employment is terminated for any reason other than by the Company for Cause or by Executive without Good Reason before any payment date set forth in the preceding sentence, then, if necessary to avoid the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to any such unpaid portion of the Transition Bonus, Executive shall not receive any such amounts until the first scheduled payroll date that occurs more than six months following the date of termination of employment (the "First Payment Date") and, on the First Payment Date, the Company will pay Executive an

amount equal to the sum of all amounts that would have been payable following termination of employment in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A.

(b) Annual Bonus. Executive may receive an additional annual cash bonus in respect of each full or partial fiscal year of the Company during the Employment Term, as determined in the sole discretion of the Compensation Committee based on its assessment of Company and individual performance in relation to performance targets, a subjective evaluation of Executive's performance and/or such other criteria as may be established by it (the "Annual Bonus"). Notwithstanding the foregoing, during the Employment Term, Executive shall be eligible, with respect to each of fiscal years 2006 and 2007, for an annual cash bonus based on the attainment of targets established by the Compensation Committee, which, together with the target value of any long-term or equity-based award in respect of such year (as described in Section 5), shall have a total target value of $6,700,000.

5. Long-Term and Equity-Based Incentives. During the Employment Term, Executive shall be eligible to participate in any long-term incentive compensation plans or equity-based compensation plans maintained by the Company on such basis as may be determined by the Compensation Committee; provided that, as of a date that is not later than March 31, 2006, Executive shall be granted awards in respect of fiscal year 2005 having a value, determined at the date of grant, as reasonably determined by the Compensation Committee, of no less than the excess of (A) $5,600,000 over (B) the sum of (i) the grant date value (as reasonably determined by the Compensation Committee in the same manner) of Company stock options and other equity awards granted to Executive no later than December 31, 2005, in respect of fiscal year 2005, (ii) the annualized fiscal year 2005 grant value (as reasonably determined by the Compensation Committee) of any award made to Executive pursuant to a Company arrangement intended to be in lieu of Executive's participation in the Starr International Company, Inc. Deferred Compensation Profit Participation Plan and (iii) the value (as reasonably determined by the Compensation Committee) of any additional shares of preferred stock awarded to Executive with respect to fiscal year 2005 by Starr and any growth in book value in respect of 2005 attributable to any common stock of Starr held by Executive. In the event that any shares pursuant to clause (iii) of the preceding sentence have not been awarded, or increase in book value determined, by Starr by March 31, 2006, the Company shall grant Executive a long-term or equity-based award having a value, as reasonably determined by the Compensation Committee, equal to the excess of (X) $5,600,000 over (Y) the value of the awards described in clauses (i) and (ii) of the preceding sentence. Notwithstanding anything to the contrary in this Section 5, during the Employment Term, Executive shall be eligible, with respect to each of fiscal years 2006 and 2007, for a long-term or equity-based award, which, together with any annual cash bonus target in respect of such year (as described in Section 4(b)), shall have a total target value (as reasonably determined by the Compensation Committee) of $6,700,000. The amount actually awarded in respect of 2006 and 2007 shall be offset by the value of (I) awards described in clause (B) of the first sentence of this Section 5, but substituting 2006 or 2007, as applicable, for 2005 in such clause and (II) any shares awarded, or increase in book value determined, in accordance with such clause (B) in respect of the applicable year but later than March 31 of the subsequent year.

6. Employee Benefits. During the Employment Term, Executive shall be entitled to participate in the Company's employee benefit plans (other than any severance or change-in-control plan) as in effect from time to time on the same basis as those benefits are generally made available to other senior executives of the Company.

7. Vacation. Executive shall be entitled to four (4) weeks annual paid vacation in accordance with the vacation policy of the Company.

8. Business Expenses and Perquisites.

(a) Expenses.

(i) During the Employment Term, reasonable business expenses incurred by Executive in the performance of his duties hereunder shall be reimbursed by the Company in accordance with Company policies.

(ii) In addition, the Company will make Executive whole (on a grossed-up basis) for the excess of (x) any Japanese tax liability imposed on Executive on his income from the Company due to his being reassigned to the Far East in 2005, in respect of his employment with the Company prior to January 1, 2004, over (y) the hypothetical federal income tax liability to which Executive would have been subject on such income had Executive been resident in the United States in accordance with the Company's MOP Policy, as agreed with Executive during Executive's assignment; provided that Executive shall appeal the assessment of any such tax in any manner reasonably requested by the Company, with the cost of any such appeal being borne by the Company. The provisions of this Section 8(a)(ii) shall survive the termination of this Agreement.

(b) Perquisites. During the Employment Term, Executive shall be entitled to participate in all of the Company's perquisite plans, programs and arrangements that are generally provided by the Company to other senior executives from time to time, including, without limitation, the provision of financial and tax planning assistance.

9. Termination. Notwithstanding any other provision of the Agreement:

(a) For Cause by the Company. The Employment Term, and Executive's employment hereunder, may be terminated at any time by the Company for Cause upon delivery of a "Notice of Termination" (as defined in Section 9(f)) by the Company to Executive. For purposes of this Agreement, "Cause" shall mean, whether occurring prior to, or on or after the Effective Date, (i) Executive's willful and continued failure to perform substantially his duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness) for a period of 10 days after a written demand for substantial performance is delivered to Executive by the Board, which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties, (ii) Executive's willful malfeasance or willful misconduct that results in substantial damage to the Company, (iii) Executive's willful and material violation of a material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial

Officer Code of Business Conduct and Ethics, as such codes of conduct may be in effect from time to time, or other policies regarding behavior of employees, (iv) conviction of, or entry of a plea of guilty or no contest by Executive with respect to, a felony or any lesser crime of which fraud or dishonesty is a material element, (v) any willful failure by Executive to comply with a material provision of Section 11 of this Agreement, or (vi) Executive's breach of Section 14 of this Agreement.

For purposes of this provision, no act or failure to act on the part of Executive, shall be considered "willful" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Board or the Chief Executive Officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company. The cessation of employment of Executive shall not be deemed to be for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a simple majority of the members of the Board (other than Executive, if he is a member of the Board) at a meeting of the Board called and held for such purpose (after reasonable notice is provided to Executive, and Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, Executive is guilty of the conduct described in clauses (i), (ii), (iii), (v) or (vi) above, and specifying the particulars thereof in detail; provided, that, no such resolution shall be required for any termination for Cause due to the conduct described in clause (iv) above.

If Executive is terminated for Cause pursuant to this Section 9(a), he shall be entitled to receive only his Base Salary through the date of termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination, and he shall have no further rights to any compensation (including any Base Salary, Transition Bonus, Annual Bonus (including any Annual Bonus that has been declared but not yet paid), payments from the Company pursuant to Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination of employment for Cause pursuant to this Section 9(a) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(b) Disability or Death. The Employment Term, and Executive's employment hereunder, shall terminate immediately upon Executive's death or following delivery of a Notice of Termination by the Company to Executive if Executive becomes physically or mentally incapacitated and is therefore unable for a period of ninety (90) consecutive days or one-hundred twenty (120) days during any consecutive six (6) month period to perform his duties with substantially the same level of quality as immediately prior to such incapacity (such incapacity is hereinafter referred to as "Disability"). Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive (i) his Base Salary through the last day of the

payroll period during which such termination occurs; (ii) any declared but unpaid Annual Bonus for any fiscal year preceding the year in which the termination occurs; (iii) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination (the sum of (i), (ii) plus (iii), the "Accrued Obligations"); (iv) a pro rata portion of any Annual Bonus that Executive would have been entitled to receive pursuant to Section 4(b) of this Agreement with respect to the fiscal year of termination based upon the percentage of the fiscal year that shall have elapsed through the date of Executive's termination of employment, and determined by using (X) the Transition Bonus, if such termination occurs during fiscal year 2005, and reducing the pro rata portion of the Transition Bonus by the aggregate amount of all installments of the Transition Bonus that have been paid through the date of termination, or (Y) Executive's target Annual Bonus for the fiscal year of such termination, if such termination occurs following the end of fiscal year 2005 (the "Pro-Rata Bonus"), payable as soon as reasonably practicable following the date of Executive's termination of employment, and (v) in the case of a termination due to Disability, continuation of the Base Salary in effect on the date of termination until the earlier of (A) the second anniversary of the date of termination, and (B) the date Executive is eligible to commence receiving payments under the Company's long-term disability policy. Notwithstanding the foregoing, in the event of Executive's termination of employment due to Disability, if necessary to avoid the application of Section 409A of the Code to the amounts payable pursuant to clauses (iv) and (v) of the preceding sentence, Executive shall not receive any such amounts until the First Payment Date and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all amounts that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A. Executive or Executive's estate (as the case may be) shall have no further rights to any compensation (including any Base Salary, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination for Disability or death shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive (or his estate, as the case may be) shall not participate in any severance plan, policy or program of the Company.

(c) Without Cause by the Company or for Good Reason by Executive. The Employment Term, and Executive's employment hereunder, may be terminated by the Company without Cause (other than by reason of Executive's Disability) following the delivery by the Company of a Notice of Termination to Executive or by Executive for Good Reason following the delivery by Executive of a Notice of Termination to the Company. The expiration of the Employment Term on the date immediately preceding the third anniversary of the Effective Date shall not be considered a termination without Cause under this Agreement or otherwise result in the payment of severance or post-employment benefits pursuant to Section 9(c) of this Agreement if Executive is not otherwise terminated pursuant to Section 9(c) of this Agreement prior to such date. If Executive's employment is terminated by the Company without Cause (other than by reason of Disability) or by Executive for Good Reason, Executive shall be entitled to receive:

(i) within five (5) business days following termination, a lump sum payment in an amount equal to the Accrued Obligations;

(ii) the Pro-Rata Bonus, payable as soon as reasonably practicable following the date of Executive's termination of employment; provided, that, if necessary to avoid the application of Section 409A of the Code to the Pro Rata Bonus, Executive shall not receive any such Pro Rata Bonus installment until the First Payment Date;

(iii) subject to Executive's continued compliance with Section 11 of this Agreement, an amount equal to the greater of (A) $10,000,000, and (B) an amount equal to the sum of (I) three times the Base Salary (at the rate in effect immediately prior to termination) and (II) three times the actual Annual Bonus paid with respect to the preceding fiscal year (any such amount shall be referred to in this Agreement as the "Severance"); provided that, for purposes of this sentence, an Annual Bonus shall be deemed to be "paid" at the time that Executive receives an amount in respect thereof at the time that Annual Bonuses are paid to other senior executives of the Company. The Severance shall be payable in equal installments (each, a "Severance Installment") over the twelve (12) month period (eighteen (18) month period in the event of a termination by Executive for Good Reason based on the circumstances described in clause (iv) or clause (v) under the definition of Good Reason in this Section 9(c)) commencing with the second of the Company's standard payroll dates falling after such termination; provided, however, that, if necessary to avoid the application of Section 409A of the Code to the Severance, Executive shall not receive any installment payment until the First Payment Date, and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all Severance Installments that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A;

(iv) continued health and life insurance benefits for Executive and his spouse and dependents, if any, for a thirty six (36) month period following the date of Executive's termination of employment, on the same basis as such benefits are provided from time to time to actively employed senior executives of the Company; provided, that the Company's obligation to provide such health and life insurance benefits shall cease with respect to such benefits at the time Executive becomes eligible for such benefits from another employer;

(v) three years of additional service credit and credit for three years of additional age under the Company's employee pension plans, except for under any plan that is qualified or intended to be qualified under the provisions of Section 401 of the Code, for purposes of benefit accrual, matching contributions, vesting and eligibility for retirement. For the avoidance of doubt, no amounts provided in Section 9(c)(ii) or (iii) of this Agreement shall be included in such calculation, and Executive shall not be entitled to receive any payments pursuant to any non-qualified pension plan of the Company until expiration of the thirty six (36) month period following the Executive's termination of employment under this Section 9(c); and

(vi) if, as of the date of such termination, (a) Executive is not eligible to participate in any retiree medical or life insurance program of the Company and (b) Executive would have at least 10 years of service with the Company and reached at least age 55 if credited with three years of additional age and service, then the Company shall purchase for Executive a medical and/or life insurance policy, as applicable, that provides coverage that is as comparable as is commercially available to the coverage under the retiree medical and/or retiree life insurance program of the Company, as applicable, as in effect as of the date of Executive's

termination of employment. For the avoidance of doubt, nothing in this Section 9(c)(vi) shall provide Executive with any extra age or service credit for purposes of eligibility or for any other purpose under any retiree medical or life insurance program of the Company.

Notwithstanding anything to the contrary in this Agreement, no further payments or benefits shall be due under this Section 9(c) if, at any time after Executive's employment is terminated pursuant to this Section 9(c) and prior to the time when any payment is made or benefit provided pursuant to this Section 9(c), the Board determines, in accordance with the procedures set forth in Section 9(a) of this Agreement, that grounds existed, on or prior to the date of termination of Executive's employment with the Company, including prior to the Effective Date, for the Company to terminate Executive's employment for Cause; provided, however, that, Executive shall in all events be entitled to receive his Base Salary through the date of termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination.

Executive shall have no rights to any further compensation (including any Base Salary, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following a termination pursuant to this Section 9(c) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company. Executive and the Company acknowledge that any payments and benefits provided to Executive under clauses (ii) through (vi) of this Section 9(c) relate solely to services rendered by Executive to the Company on and after the Effective Date.

For purposes of this Agreement, "Good Reason" means:

(i) any change in the duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material and adverse respect with Executive's current position(s), duties, responsibilities or status with the Company (including any material and adverse diminution of such duties or responsibilities); provided, however, that Good Reason shall not be deemed to occur pursuant to this clause (i) solely on account of the Company no longer being a publicly traded entity or on account of any change to Executive's duties as a result of his physical or mental incapacity;

(ii) a material and adverse change in Executive's titles or offices (including his position as Executive Vice Chairman and Chief Operating Officer with the Company; provided, however, that Good Reason shall not be deemed to occur pursuant to this clause (ii) on account of any change to Executive's titles or offices as a result of his physical or mental incapacity;

(iii) any material breach of this Agreement by the Company;

(iv) the failure of the Compensation Committee to adopt, by December 31, 2005 (or such later date mutually agreed by Executive and the Compensation Committee), an incentive compensation program in respect of each of the 2006 and 2007 fiscal

years setting forth target awards that are, in the aggregate, no less than $6,700,000 and, as and if appropriate to the award type, performance metrics and payout schedules for earning target, above-target, or below-target award amounts;

(v) within 30 days following notice by the Compensation Committee to Executive of adoption of an incentive compensation program in respect of each of the 2006 and 2007 fiscal years, Executive's written notification to the Compensation Committee that such program is not acceptable to Executive; or

(vi) the relocation of Executive's primary office to a location that is more than thirty five (35) miles from (A) the Company's offices in Tokyo, Japan or in Hong Kong, as the same shall exist from time to time, unless such office is moved closer to Executive's primary residence at the time of such relocation, and (B) Executive's primary residence at the time of such relocation;

provided that, a termination by Executive with Good Reason shall be effective only if, within thirty (30) days following Executive's first becoming aware of the circumstances giving rise to Good Reason, Executive delivers a Notice of Termination for Good Reason by Executive to the Company, and the Company within thirty (30) days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason.

(d) Termination by Executive without Good Reason. The Employment Term, and Executive's employment hereunder, may be terminated by Executive without Good Reason following the delivery of a Notice of Termination to the Company. Upon a termination by Executive pursuant to this Section 9(d), Executive shall be entitled to his Base Salary through the date of such termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination, and he shall have no rights to any further compensation (including any Base Salary, Transition Bonus, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following termination pursuant to this Section 9(d) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(e) Release. Notwithstanding any other provision of this Agreement to the contrary, Executive acknowledges and agrees that any and all payments and benefits to which Executive is entitled under Section 9(b) or Section 9(c) of this Agreement are conditional upon and subject to Executive's execution of a general release and waiver, substantially in the form attached as Exhibit A hereto, of all claims Executive may have against the Company and its directors, officers and affiliates, except as to matters covered by provisions of this Agreement that expressly survive the termination of this Agreement.

(f) Notice of Termination. Any purported termination of employment by the Company or Executive, other than any termination due to Executive's death, shall be communicated by a written Notice of Termination to Executive or the Company, respectively,

delivered in accordance with Section 15(i) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in the Agreement relied upon, the date of termination, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. The date of termination of Executive's employment shall be the date so stated in the Notice of Termination, which date, in the event of a termination by Executive pursuant to Section 9(d), shall be no less than sixty (60) days following the delivery of a Notice of Termination; provided, however, that in the case of a termination for Cause by the Company, the date of termination shall be the date the Notice of Termination is delivered in accordance with Section 15(i).

(g) Continuation of Employment; Termination On or After Expiration of Employment Term. Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company beyond the expiration of the Employment Term shall be deemed an employment at will and shall not be deemed to extend any of the provisions of this Agreement, and Executive's employment may thereafter be terminated at will by Executive or the Company. The expiration of the Employment Term on the date immediately preceding the third anniversary of the Effective Date shall not be cause for the payment of severance or post-employment benefits pursuant to this Agreement if Executive is not otherwise terminated pursuant to Section 9 of this Agreement prior to such date.

10. Certain Additional Payments by the Company.

(a) If it is determined (as hereafter provided) that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement of the Company, including without limitation any restricted stock, stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto), or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then the Executive will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 10(f) of this Agreement, all determinations required to be made under this Section 10, including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") chosen by the Company. The Company will direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive within fifteen (15) calendar days after the date

of the event giving rise to the Payment or the date of Executive's termination of employment, if applicable, and any other such time or times as may be requested by the Company or Executive. If the Accounting Firm determines that any Excise Tax is payable by Executive, the Company will pay the required Gross-Up Payment to Executive within five (5) business days after receipt of such determination and calculations. If the Accounting Firm determines that no Excise Tax is payable by Executive, it will, at the same time as it makes such determination, furnish Executive with an opinion that he has substantial authority not to report any Excise Tax on his federal, state, local income or other tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment will be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 10(f) hereof and Executive thereafter is required to make a payment of any Excise Tax, Executive will direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible. Any such Underpayment will be promptly paid by the Company to, or for the benefit of, Executive within five (5) business days after receipt of such determination and calculations.

(c) The Company and Executive will each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determination contemplated by Section 10(b) of this Agreement.

(d) The federal, state and local income or other tax returns filed by Executive will be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive will make proper payment of the amount of any Excise Tax, and, at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service (the "IRS") and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, Executive will, within five (5) business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 10(b) and Section 10(d) of this Agreement will be borne by the Company and paid as incurred. If such fees and expenses are initially advanced by Executive, the Company will reimburse Executive the full amount of such fees and expenses within five (5) business days after receipt from Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) Executive will notify the Company in writing of any claim by the IRS that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification will be given as promptly as practicable but no later than ten (10) business days after Executive actually receives notice of such claim and Executive will further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by Executive). Executive will not pay such claim prior to the earlier of (x) the expiration of the thirty (30) calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive will:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company will reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company will bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and will indemnify and hold harmless Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this Section 10(f), the Company will control all proceedings taken in connection with the contest of any claim contemplated by this Section 10(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided that Executive may participate therein at his own cost and expense) and may, at its option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company will determine; provided, that if the Company directs Executive to pay the tax claimed and sue for a refund, the Company will advance the amount of such payment to Executive on an interest-free basis and will indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company’s control of any such contested claim will be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and

Executive will be entitled to settle or contest, as the case may be, any other issue raised by the IRS or any other taxing authority.

(g) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 10 (f) hereof, Executive receives any refund with respect to such claim, Executive will (subject to the Company's complying with the requirements of Section 10(f) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 10(f) hereof, a determination is made that Executive will not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial or refund prior to the expiration of thirty (30) calendar days after such determination, then such advance will be forgiven and will not be required to be repaid and the amount of such advance will offset, to the extent thereof, the amount of Gross-Up Payment required to be paid pursuant to this Section 10.

(h) If it is ultimately determined (by IRS private letter ruling or closing agreement, court decision or otherwise) that any Gross-Up Payments and/or advances and/or Underpayments and/or any other amounts paid or made by the Company pursuant to this Section 10 were not necessary to accomplish the purpose of this Section 10, the Executive shall promptly cooperate with the Company to correct such overpayments (by way of assigning any refund to the Company as provided herein, by direct repayment or otherwise) in a manner consistent with the purpose of this Section 10, which is to protect the Executive by making him whole, but not more than whole, on an after-tax basis, from the application of the Excise Tax.

11. Restrictive Covenants.

(a) Non-Competition/Non-Solicitation. Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its subsidiaries and controlled affiliates and accordingly agrees as follows:

(i) While employed by the Company and for a period of twelve (12) months (eighteen (18) months in the event of a termination by Executive for Good Reason based on the circumstances described in clause (iv) or clause (v) under the definition of Good Reason in Section 9(c) of this Agreement) following the date Executive ceases to be employed by the Company, if such termination occurs during the Employment Term (the "Restricted Period"), Executive will not directly or indirectly, (w) engage in any "Competitive Business" (defined below) for Executive's own account, (x) enter the employ of, or render any services to, any person engaged in any Competitive Business, (y) acquire a financial interest in, or otherwise become actively involved with, any person engaged in any Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, or (z) interfere with business relationships (whether formed before or after the Effective Date) between the Company and customers or suppliers of, or consultants to, the Company.

(ii) For purposes of this Section 11, a "Competitive Business" means, as of any date, including during the Restricted Period, any person or entity (including any joint venture, partnership, firm, corporation or limited liability company) that engages in or proposes to engage in the following activities in any geographical area in which the Company does business: (A) the property and casualty insurance business, including commercial insurance, business insurance, personal insurance and specialty insurance; (B) the life and accident and health insurance business; (C) the underwriting, reinsurance, marketing or sale of (but not brokerage of) (y) any form of insurance of any kind that the Company as of such date does, or proposes to, underwrite, reinsure, market or sell (any such form of insurance, a "Company Insurance Product"), or (z) any other form of insurance that is marketed or sold in competition with any Company Insurance Product; (D) retirement services and mutual funds services; or (E) any other business that as of such date is a direct and material competitor of one of the Company's principal businesses.

(iii) For purposes of this Section 11, the Company shall be construed to include the Company and its subsidiaries and controlled affiliates.

(iv) Notwithstanding anything to the contrary in the Agreement, Executive may (A) directly or indirectly, own, solely as an investment, securities of any person engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (x) is not a controlling person of, or a member of a group which controls, such person and (y) does not, directly or indirectly, own one percent (1%) or more of any class of securities of such person, and (B) during the portion of the Restricted Period following termination of Executive's employment, be employed by or provide services to, any private equity firm or hedge fund, so long as Executive has no participation whatsoever in any fund invested in any business described in clauses (A) through (C) of Section 11(a)(ii) of this Agreement.

(v) During the Restricted Period, Executive will not, directly or indirectly, without the Company's written consent, solicit or encourage to cease to work with the Company any person who holds a position that is designated as a "senior partner" or "partner" for purposes of eligibility to participate in any deferred compensation profit participation program of the Company (or any similar designation in any successor or substitute plan or program (each, a "DCPPP Senior Partner or Partner"), any employee holding the title of Vice President or higher of the Company or any business unit of the Company, or any employee designated by the Company as a "core employee" or a similar designation (a "Key Employee") or any consultant whose primary business activity consists of providing services to the Company ("Key Consultant") or who was a Key Employee of or Key Consultant then under contract with the Company within the six (6) month period preceding such activity. In addition, during the Restricted Period, Executive will not, without the Company's written consent, directly or indirectly hire any person who is or who was, within the six (6) month period preceding such activity, a DCPPP Senior Partner or Partner.

(vi) Executive understands that the provisions of this Section 11(a) may limit his ability to earn a livelihood in a business similar to the business of the Company but he nevertheless agrees and hereby acknowledges that (A) such provisions do not

impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public and (D) such provisions are not unduly burdensome to Executive. In consideration of the foregoing and in light of Executive's education, skills and abilities, Executive agrees that he shall not assert that, and it should not be considered that, any provisions of Section 11(a) otherwise are void, voidable or unenforceable or should be voided or held unenforceable.

(vii) It is expressly understood and agreed that, although Executive and the Company consider the restrictions contained in this Section 11(a) to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Section 11(a) or elsewhere in this Agreement is an unenforceable restriction against Executive, the provisions of the Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(b) Nondisparagement. Executive agrees (whether during or after Executive's employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or the officers, directors or managers of the Company other than to the extent reasonably necessary in order to (i) assert a bona fide claim against the Company arising out of Executive's employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding. The Company agrees to instruct its directors and executives not to (whether during or after Executive's employment with the Company) issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about Executive other than to the extent reasonably necessary in order to (i) assert or bona fide claim against Executive arising out of Executive's employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding.

(c) Code of Conduct. Executive agrees to abide by the terms of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics.

(d) Confidentiality/Company Property. Executive shall not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity, any "Confidential Information" (as defined below) except while employed by the Company, in furtherance of the business of and for the benefit of the Company, or any "Personal Information" (as defined below); provided that Executive may disclose such information when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company and/or its affiliates, as the case may be, or by any administrative body or legislative

body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information; provided, further, that in the event that Executive is ordered by a court or other government agency to disclose any Confidential Information or Personal Information, Executive shall (i) promptly notify the Company of such order, (ii) at the written request of the Company, diligently contest such order at the sole expense of the Company as expenses occur, and (iii) at the written request of the Company, seek to obtain, at the sole expense of the Company, such confidential treatment as may be available under applicable laws for any information disclosed under such order. For purposes of this Section 11(d), (i) "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information relating to the business of the Company or its affiliates or customers, that, in any case, is not otherwise available to the public (other than by Executive's breach of the terms hereof) and (ii) "Personal Information" shall mean any information concerning the personal, social or business activities of the officers or directors of the Company. Upon termination of Executive's employment with the Company, Executive shall return all Company property, including, without limitation, files, records, disks and any media containing Confidential Information or Personal Information.

(e) Developments. All discoveries, inventions, ideas, technology, formulas, designs, software, programs, algorithms, products, systems, applications, processes, procedures, methods and improvements and enhancements conceived, developed or otherwise made or created or produced by Executive alone or with others, and in any way relating to the business or any proposed business of the Company of which Executive has been made aware, or the products or services of the Company of which Executive has been made aware, whether or not subject to patent, copyright or other protection and whether or not reduced to tangible form, at any time during the Employment Term ("Developments"), shall be the sole and exclusive property of the Company. Executive agrees to, and hereby does, assign to the Company, without any further consideration, all of Executive's right, title and interest throughout the world in and to all Developments. Executive agrees that all such Developments that are copyrightable may constitute works made for hire under the copyright laws of the United States and, as such, acknowledges that the Company is the author of such Developments and owns all of the rights comprised in the copyright of such Developments and Executive hereby assigns to the Company without any further consideration all of the rights comprised in the copyright and other proprietary rights Executive may have in any such Development to the extent that it might not be considered a work made for hire. Executive shall make and maintain adequate and current written records of all Developments and shall disclose all Developments promptly, fully and in writing to the Company promptly after development of the same, and at any time upon request.

(f) Cooperation. During the Employment Term and at any time thereafter, Executive agrees to cooperate (i) with the Company in the defense of any legal matter involving any matter that arose during Executive's employment with the Company and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative proceeding pertaining to the Company. The Company will reimburse Executive for any reasonable travel and out of pocket expenses incurred by Executive in providing such cooperation. The Company agrees to cooperate with the Executive in the same manner as described above.

12. Enforcement. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Sections 11(a), (b), (d) and (e) of this Agreement would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, the Company shall be entitled to immediately cease paying any amounts remaining due or providing any benefits to Executive pursuant to Section 9 of this Agreement upon a determination by the Board that Executive has violated any provision of Section 11 (a), (b), (d), (e) or (f) of this Agreement, subject to payment of all such amounts upon a final determination, in accordance with the dispute resolution mechanism contained in Section 15 of this Agreement, that Executive had not violated Section 11 (a), (b), (d), (e) or (f) of this Agreement.

13. Indemnification. At all times during and after the Employment Term, the Company shall indemnify Executive to the fullest extent permitted by the law of the state of the Company's incorporation for all actions or omissions taken or made by Executive (whether before or after the date of this Agreement) in his service to the Company or its affiliated entities for which Executive has performed or does perform services at the request of the Company, including, to the fullest extent allowed by law, the advancement to Executive of all reasonable attorneys' costs and expenses incurred by Executive in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer or employee of the Company, within twenty (20) calendar days after receipt by the Company of a written request from Executive for such advance. Executive's request for advancement of attorneys' costs and expenses pursuant to the preceding sentence shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined pursuant to Section 15(b) that Executive is not entitled to be indemnified against such costs and expenses. Executive shall have the benefit of continuing directors' and officers' insurance coverage at levels no less favorable than those in effect from time to time for members of the Board and other members of the Company's senior management.

14. Executive Representation and Warranty. Executive hereby represents and warrants that, as of the date of this Agreement, during Executive's period of employment with the Company, Executive has not willfully or grossly negligently breached Executive's duties as an employee, officer or director of the Company, has not committed fraud, embezzlement or any other similar dishonest conduct in the course of his employment and has not willfully violated any material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics. As used in this Section 14, the term "willfully" shall be subject to the same limitations as the term "willful" in Section 9(a) of this Agreement.

15. Miscellaneous.

(a) No Mitigation or Offset. In the event of any termination of Executive's employment hereunder, Executive shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Agreement, and

there shall be no offset against any amounts due under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(b) Arbitration. Except as provided in Section 11 of this Agreement, any dispute between the parties to this Agreement in connection with, arising out of or asserting breach of this Agreement or any statutory or common law claim by Executive relating to Executive’s employment under this Agreement or rights under this Agreement (including any tort or discrimination claim), shall be exclusively resolved by binding statutory arbitration. Such dispute shall be submitted to arbitration in New York, New York, before a panel of three neutral arbitrators in accordance with the Commercial Rules of the American Arbitration Association then in effect, and the arbitration determination resulting from any such submission shall be final and binding upon the parties hereto. Judgment upon any arbitration award may be entered in any court of competent jurisdiction.

(c) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE, WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISIONS OR THE CONFLICT OF LAWS PROVISIONS OF ANY OTHER JURISDICTION WHICH WOULD CAUSE THE APPLICATION OF ANY LAW OTHER THAN THAT OF THE STATE OF NEW YORK.

(d) Entire Agreement/Amendments. This Agreement contains the entire understanding of the parties with respect to the employment of Executive by the Company, and, without limiting the effect of the foregoing, specifically supersedes the Employment Letter. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not be altered, modified or amended except by written instrument signed by the parties hereto. Sections 3, 5, 8(a)(ii), 9, 10, 11, 12, 13 and 15 of this Agreement shall survive the termination of Executive’s employment with the Company, to the extent specifically stated therein.

(e) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party’s rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(f) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(g) Successors.

(i) This Agreement is personal to Executive and shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This

Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors.

(ii) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, unless such assumption occurs by operation of law. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(h) Dispute Resolution Costs; Legal Fees. In the event of any contest or dispute relating to this Agreement or the termination of Executive's employment hereunder, the Company shall reimburse 100% of Executive's reasonable legal fees if Executive substantially prevails in such contest or dispute. The costs of any arbitration pursuant to Section 15(b) (including the fees and cost of the arbitrators) shall be paid by the Company.

(i) Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, if sent by facsimile transmission or if mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by United States registered mail shall be deemed given two days after the date of deposit in the United States mail.

If to Executive, to the address as shall most currently appear on the records of the Company

With a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Attn: Adam Chinn, Esq.
Fax: 212-403-2000

If to the Company, to:

American International Group, Inc.
70 Pine Street
New York, NY 10270
Fax: 212-770-1584
Attn: General Counsel

With a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attn: Michael J. Segal, Esq.
Fax: 212-757-3990

(j) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(k) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EXECUTIVE

/s/ Donald P. Kanak
Donald P. Kanak

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President, Secretary and Deputy General Counsel

EXHIBIT A

RELEASE OF CLAIMS

1. Release of Claims

In partial consideration of the payments and benefits described in Section 9 of the employment agreement (the "Employment Agreement"), effective March 14, 2005, by and between Donald P. Kanak ("Executive") and American International Group, Inc. (the "Company"), to which Executive agrees Executive is not entitled until and unless he executes this Release, Executive, for and on behalf of himself and his heirs and assigns, subject to the following two sentences hereof, hereby waives and releases any employment, compensation or benefit-related common law, statutory or other complaints, claims, charges or causes of action of any kind whatsoever, both known and unknown, in law or in equity, which Executive ever had, now has or may have against the Company and its shareholders (other than C.V. Starr & Co., Inc. and Starr International Company, Inc.), subsidiaries, successors, assigns, directors, officers, partners, members, employees or agents (collectively, the "Releasees") by reason of facts or omissions which have occurred on or prior to the date that Executive signs this Release, including, without limitation, any complaint, charge or cause of action arising under federal, state or local laws pertaining to employment, including the Age Discrimination in Employment Act of 1967 ("ADEA," a law which prohibits discrimination on the basis of age), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans With Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, all as amended; and all other federal, state and local laws and regulations. By signing this Release, Executive acknowledges that he intends to waive and release any rights known or unknown that he may have against the Releasees under these and any other laws; provided, that Executive does not waive or release claims with respect to the right to enforce the Employment Agreement (the "Unreleased Claims"). Notwithstanding the foregoing, Executive does not release, discharge or waive any rights to indemnification that he may have under the certificate of incorporation, the by-laws or equivalent governing documents of the Company or its subsidiaries or affiliates, the laws of the State of Delaware or any other state of which such subsidiary or affiliate is a domiciliary, or any indemnification agreement between Executive and the Company, or any rights to insurance coverage under any directors' and officers' personal liability insurance or fiduciary insurance policy.

2. Proceedings

Executive acknowledges that he has not filed any complaint, charge, claim or proceeding, except with respect to an Unreleased Claim, if any, against any of the Releasees before any local, state or federal agency, court or other body (each individually a "Proceeding"). Executive represents that he is not aware of any basis on which such a Proceeding could reasonably be instituted. Executive (i) acknowledges that he will not initiate or cause to be initiated on his behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (ii) waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). Further, Executive understands that, by executing this Release, he will be limiting the availability of

certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Releasees. Notwithstanding the above, nothing in Section 1 of this Release shall prevent Executive from (i) initiating or causing to be initiated on his behalf any complaint, charge, claim or proceeding against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of his claims under the ADEA contained in Section 1 of this Release (but no other portion of such waiver); or (ii) initiating or participating in an investigation or proceeding conducted by the EEOC.

3. Time to Consider

Executive acknowledges that he has been advised that he has twenty-one (21) days from the date of receipt of this Release to consider all the provisions of this Release and he does hereby knowingly and voluntarily waive said given twenty-one (21) day period. EXECUTIVE FURTHER ACKNOWLEDGES THAT HE HAS READ THIS RELEASE CAREFULLY, HAS BEEN ADVISED BY THE COMPANY TO, AND HAS IN FACT, CONSULTED AN ATTORNEY, AND FULLY UNDERSTANDS THAT BY SIGNING BELOW HE IS GIVING UP CERTAIN RIGHTS WHICH HE MAY HAVE TO SUE OR ASSERT A CLAIM AGAINST ANY OF THE RELEASEES, AS DESCRIBED IN SECTION 1 OF THIS RELEASE AND THE OTHER PROVISIONS HEREOF. EXECUTIVE ACKNOWLEDGES THAT HE HAS NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS RELEASE, AND EXECUTIVE AGREES TO ALL OF ITS TERMS VOLUNTARILY.

4. Revocation

Executive hereby acknowledges and understands that Executive shall have seven (7) days from the date of his execution of this Release to revoke this Release (including, without limitation, any and all claims arising under the ADEA) and that neither the Company nor any other person is obligated to provide any benefits to Executive pursuant to Section 9 of the Employment Agreement until eight (8) days have passed since Executive’s signing of this Release without Executive having revoked this Release, in which event the Company immediately shall arrange and/or pay for any such benefits otherwise attributable to said eight- (8) day period, consistent with the terms of the Employment Agreement. If Executive revokes this Release, Executive will be deemed not to have accepted the terms of this Release, and no action will be required of the Company under any section of this Release.

5. No Admission

This Release does not constitute an admission of liability or wrongdoing of any kind by Executive or the Company.

6. General Provisions

A failure of any of the Releasees to insist on strict compliance with any provision of this Release shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Release is determined to be so broad as to be unenforceable, such provision

shall be interpreted to be only so broad as is enforceable, and in the event that any provision is determined to be entirely unenforceable, such provision shall be deemed severable, such that all other provisions of this Release shall remain valid and binding upon Executive and the Releasees.

7. Governing Law

The validity, interpretations, construction and performance of this Release shall be governed by the laws of the State of New York without giving effect to conflict of laws principles.

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand as of the day and year set forth opposite his signature below.

______________________________	______________________________
DATE	Donald P. Kanak

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement"), is entered into as of June 27, 2005, by and between American International Group, Inc., a Delaware corporation (the "Company"), and Steven J. Bensinger ("Executive").

WHEREAS, Executive is currently employed by the Company as its Executive Vice President and Chief Financial Officer pursuant to that certain employment letter dated as of March 16, 2005 (the "Employment Letter"); and

WHEREAS, as of the date of this Agreement, the Company wishes to continue Executive's employment as Executive Vice President and Chief Financial Officer under the terms of a new employment agreement on the terms set forth herein, which shall supersede the Employment Letter; and

WHEREAS, Executive desires to enter into such agreement; and

WHEREAS, Executive's employment as the Company's Executive Vice President and Chief Financial Officer is a promotion from his position with the Company prior to March 14, 2005, and the Board of Directors of the Company (the "Board") has acknowledged that Executive has been performing his duties as Executive Vice President and Chief Financial Officer under conditions at the Company that are demanding both in terms of the time commitment required and the unique circumstances facing the Company as of the date of this Agreement.

NOW, THEREFORE, in consideration of the premises and mutual covenants herein and for other good and valuable consideration, the parties hereby agree as follows:

1. Term of Employment. Subject to the provisions of Section 9 of this Agreement, this Agreement shall be effective for a term commencing as of March 14, 2005 (the "Effective Date") and ending on the day immediately preceding the third anniversary of the Effective Date (the "Employment Term").

2. Position.

(a) Executive shall serve as Executive Vice President and Chief Financial Officer of the Company. In such position, Executive shall have such duties and authority as are consistent therewith. Executive shall report to the Company's Chief Executive Officer and to the Audit Committee of the Board.

(b) During the Employment Term, Executive will devote his full business time and best efforts to the performance of his duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services, either directly or indirectly, without the prior written consent of the Board; provided, that nothing herein shall preclude Executive, subject to the prior approval of the Board, from accepting appointment to or continuing to serve on any

board of directors or trustees of any business corporation or any charitable or not-for-profit organization or from managing his personal, financial and legal affairs; provided, in each case, and in the aggregate, that such activities do not conflict or interfere with the performance of Executive's duties hereunder or conflict with Section 11 of this Agreement in any material respect.

3. Base Salary and Non-Variable Compensation.

(a) Base Salary. During the Employment Term, the Company shall pay Executive a base salary (the "Base Salary") at the annual rate of $750,000, payable in regular installments in accordance with the Company's usual payroll practices. The Base Salary shall be retroactive to the Effective Date. During the Employment Term, the Compensation Committee of the Board (the "Compensation Committee") shall review the Base Salary annually and may increase the Base Salary, and the term "Base Salary" shall refer to such increased amount.

(b) Non-Variable Compensation. Executive shall receive an additional cash payment with respect to each of fiscal years 2005, 2006 and 2007, in addition to any other amounts described in this Agreement, in an amount equal to the excess, if any, of (i) $750,000 over (ii) the aggregate of all (A) supplemental quarterly interim cash bonuses in respect of the Company's long-term compensation arrangements or otherwise paid in respect of the applicable fiscal year, which shall be paid consistent with past practice, and (B) cash dividends received in respect of the fiscal year, or with respect to the prior fiscal year to the extent not previously taken into account in respect of this clause (B), on common and preferred stock of C.V. Starr & Co., Inc. ("Starr") held by Executive, which compensation shall be paid no later than March 31 of the fiscal year following each of fiscal years 2005, 2006 and 2007. This amount shall be payable in respect of fiscal year 2007 irrespective of the expiration of the Employment Term on the day immediately preceding the third anniversary of the Effective Date, if such amount has not been paid by such time.

4. Bonuses.

(a) Transition Bonus. The Company shall pay Executive a transition bonus, in cash, in an amount equal to $1,000,000 (the "Transition Bonus"), which shall be paid in four equal installments on, or as soon as reasonably practicable following, each of the following dates, whether or not Executive is employed by the Company on such dates, unless Executive's employment has been terminated by the Company for "Cause" or by Executive without "Good Reason" (as such terms are defined below): (i) the date Executive and the Company sign this Agreement, and (ii) the last day of each of the second, third and fourth fiscal quarters of the Company in 2005. If Executive's employment is terminated for any reason other than by the Company for Cause or by Executive without Good Reason before any payment date set forth in the preceding sentence, then, if necessary to avoid the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to any such unpaid portion of the Transition Bonus, Executive shall not receive any such amounts until the first scheduled payroll date that occurs more than six months following the date of termination of employment (the "First Payment Date") and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all amounts that would have been payable following termination of

employment in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A.

(b) Annual Bonus. Executive may receive an additional annual cash bonus in respect of each full or partial fiscal year of the Company during the Employment Term, as determined in the sole discretion of the Compensation Committee based on its assessment of Company and individual performance in relation to performance targets, a subjective evaluation of Executive's performance and/or such other criteria as may be established by it (the "Annual Bonus"). Notwithstanding the foregoing, during the Employment Term, Executive shall be eligible, with respect to each of fiscal years 2006 and 2007, for an annual cash bonus based on the attainment of targets established by the Compensation Committee, which, together with the target value of any long-term or equity-based award in respect of such year (as described in Section 5), shall have a total target value of $5,000,000.

5. Long-Term and Equity-Based Incentives. During the Employment Term, Executive shall be eligible to participate in any long-term incentive compensation plans or equity-based compensation plans maintained by the Company on such basis as may be determined by the Compensation Committee; provided that, as of a date that is not later than March 31, 2006, Executive shall be granted awards in respect of fiscal year 2005 having a value, determined at the date of grant, as reasonably determined by the Compensation Committee, of no less than the excess of (A) $4,000,000 over (B) the sum of (i) the grant date value (as reasonably determined by the Compensation Committee in the same manner) of Company stock options and other equity awards granted to Executive no later than December 31, 2005, in respect of fiscal year 2005, (ii) the annualized fiscal year 2005 grant value (as reasonably determined by the Compensation Committee) of any award made to Executive pursuant to a Company arrangement intended to be in lieu of Executive's participation in the Starr International Company, Inc. Deferred Compensation Profit Participation Plan and (iii) the value (as reasonably determined by the Compensation Committee) of any additional shares of preferred stock awarded to Executive with respect to fiscal year 2005 by Starr and any growth in book value in respect of 2005 attributable to any common stock of Starr held by Executive. In the event that any shares pursuant to clause (iii) of the preceding sentence have not been awarded, or increase in book value determined, by Starr by March 31, 2006, the Company shall grant Executive a long-term or equity-based award having a value, as reasonably determined by the Compensation Committee, equal to the excess of (X) $4,000,000 over (Y) the value of the awards described in clauses (i) and (ii) of the preceding sentence. Notwithstanding anything to the contrary in this Section 5, during the Employment Term, Executive shall be eligible, with respect to each of fiscal years 2006 and 2007, for a long-term or equity-based award, which, together with any annual cash bonus target in respect of such year (as described in Section 4(b)), shall have a total target value (as reasonably determined by the Compensation Committee) of $5,000,000. The amount actually awarded in respect of 2006 and 2007 shall be offset by the value of (I) awards described in clause (B) of the first sentence of this Section 5, but substituting 2006 or 2007, as applicable, for 2005 in such clause and (II) any shares awarded, or increase in book value determined, in accordance with such clause (B) in respect of the applicable year but later than March 31 of the subsequent year.

6. Employee Benefits. During the Employment Term, Executive shall be

entitled to participate in the Company's employee benefit plans (other than any severance or change-in-control plan) as in effect from time to time on the same basis as those benefits are generally made available to other senior executives of the Company. In addition, Executive and the Company will negotiate in good faith to determine, prior to January 1, 2006, the nature of Executive's participation in the Company's Supplemental Executive Retirement Plan.

7. Vacation. Executive shall be entitled to four (4) weeks annual paid vacation in accordance with the vacation policy of the Company.

8. Business Expenses and Perquisites.

(a) Expenses. During the Employment Term, reasonable business expenses incurred by Executive in the performance of his duties hereunder shall be reimbursed by the Company in accordance with Company policies.

(b) Perquisites. During the Employment Term, Executive shall be entitled to participate in all of the Company's perquisite plans, programs and arrangements that are generally provided by the Company to other senior executives from time to time, including, without limitation, the provision of financial and tax planning assistance.

9. Termination. Notwithstanding any other provision of the Agreement:

(a) For Cause by the Company. The Employment Term, and Executive's employment hereunder, may be terminated at any time by the Company for Cause upon delivery of a "Notice of Termination" (as defined in Section 9(f)) by the Company to Executive. For purposes of this Agreement, "Cause" shall mean, whether occurring prior to, or on or after the Effective Date, (i) Executive's willful and continued failure to perform substantially his duties with the Company (other than any such failure resulting from Executive's incapacity due to physical or mental illness) for a period of 10 days after a written demand for substantial performance is delivered to Executive by the Board, which specifically identifies the manner in which the Board believes that Executive has not substantially performed Executive's duties, (ii) Executive's willful malfeasance or willful misconduct that results in substantial damage to the Company, (iii) Executive's willful and material violation of a material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics, as such codes of conduct may be in effect from time to time, or other policies regarding behavior of employees, (iv) conviction of, or entry of a plea of guilty or no contest by Executive with respect to, a felony or any lesser crime of which fraud or dishonesty is a material element, (v) any willful failure by Executive to comply with a material provision of Section 11 of this Agreement, or (vi) Executive's breach of Section 14 of this Agreement.

For purposes of this provision, no act or failure to act on the part of Executive, shall be considered "willful" unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Board or the Chief Executive

Officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company. The cessation of employment of Executive shall not be deemed to be for Cause unless and until there shall have been delivered to Executive a copy of a resolution duly adopted by the affirmative vote of a simple majority of the members of the Board (other than Executive, if he is a member of the Board) at a meeting of the Board called and held for such purpose (after reasonable notice is provided to Executive, and Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, Executive is guilty of the conduct described in clauses (i), (ii), (iii), (v) or (vi) above, and specifying the particulars thereof in detail; provided, that, no such resolution shall be required for any termination for Cause due to the conduct described in clause (iv) above.

If Executive is terminated for Cause pursuant to this Section 9(a), he shall be entitled to receive only his Base Salary through the date of termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination, and he shall have no further rights to any compensation (including any Base Salary, Transition Bonus, Annual Bonus (including any Annual Bonus that has been declared but not yet paid), payments from the Company pursuant to Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination of employment for Cause pursuant to this Section 9(a) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(b) Disability or Death. The Employment Term, and Executive's employment hereunder, shall terminate immediately upon Executive's death or following delivery of a Notice of Termination by the Company to Executive if Executive becomes physically or mentally incapacitated and is therefore unable for a period of ninety (90) consecutive days or one-hundred twenty (120) days during any consecutive six (6) month period to perform his duties with substantially the same level of quality as immediately prior to such incapacity (such incapacity is hereinafter referred to as "Disability"). Upon termination of Executive's employment hereunder for either Disability or death, Executive or Executive's estate (as the case may be) shall be entitled to receive (i) his Base Salary through the last day of the payroll period during which such termination occurs; (ii) any declared but unpaid Annual Bonus for any fiscal year preceding the year in which the termination occurs; (iii) reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination (the sum of (i), (ii) plus (iii), the "Accrued Obligations"); (iv) a pro rata portion of any Annual Bonus that Executive would have been entitled to receive pursuant to Section 4(b) of this Agreement with respect to the fiscal year of termination based upon the percentage of the fiscal year that shall have elapsed through the date of Executive's termination of employment, and determined by using (X) the Transition Bonus, if such termination occurs during fiscal year 2005, and reducing the pro rata portion of the Transition Bonus by the aggregate amount of all installments of the Transition Bonus that have been paid through the date of termination, or (Y) Executive's target Annual Bonus for the fiscal year of such termination, if such termination occurs following the end of fiscal year 2005 (the

"Pro-Rata Bonus"), payable as soon as reasonably practicable following the date of Executive's termination of employment, and (v) in the case of a termination due to Disability, continuation of the Base Salary in effect on the date of termination until the earlier of (A) the second anniversary of the date of termination, and (B) the date Executive is eligible to commence receiving payments under the Company's long-term disability policy. Notwithstanding the foregoing, in the event of Executive's termination of employment due to Disability, if necessary to avoid the application of Section 409A of the Code to the amounts payable pursuant to clauses (iv) and (v) of the preceding sentence, Executive shall not receive any such amounts until the First Payment Date and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all amounts that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A. Executive or Executive's estate (as the case may be) shall have no further rights to any compensation (including any Base Salary, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following Executive's termination for Disability or death shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive (or his estate, as the case may be) shall not participate in any severance plan, policy or program of the Company.

(c) Without Cause by the Company or for Good Reason by Executive. The Employment Term, and Executive's employment hereunder, may be terminated by the Company without Cause (other than by reason of Executive's Disability) following the delivery by the Company of a Notice of Termination to Executive or by Executive for Good Reason following the delivery by Executive of a Notice of Termination to the Company. The expiration of the Employment Term on the date immediately preceding the third anniversary of the Effective Date shall not be considered a termination without Cause under this Agreement or otherwise result in the payment of severance or post-employment benefits pursuant to Section 9(c) of this Agreement if Executive is not otherwise terminated pursuant to Section 9(c) of this Agreement prior to such date. If Executive's employment is terminated by the Company without Cause (other than by reason of Disability) or by Executive for Good Reason, Executive shall be entitled to receive:

(i) within five (5) business days following termination, a lump sum payment in an amount equal to the Accrued Obligations;

(ii) the Pro-Rata Bonus, payable as soon as reasonably practicable following the date of Executive's termination of employment; provided, that, if necessary to avoid the application of Section 409A of the Code to the Pro Rata Bonus, Executive shall not receive any such Pro Rata Bonus installment until the First Payment Date;

(iii) subject to Executive's continued compliance with Section 11 of this Agreement, an amount equal to the greater of (A) $7,500,000, and (B) an amount equal to the sum of (I) three times the Base Salary (at the rate in effect immediately prior to termination) and (II) three times the actual Annual Bonus paid with respect to the preceding fiscal year (any such amount shall be referred to in this Agreement as the "Severance"); provided that, for purposes of this sentence, an Annual Bonus shall be deemed to be "paid" at the time that

Executive receives an amount in respect thereof at the time that Annual Bonuses are paid to other senior executives of the Company. The Severance shall be payable in equal installments (each, a "Severance Installment") over the twelve (12) month period (eighteen (18) month period in the event of a termination by Executive for Good Reason based on the circumstances described in clause (iv) or clause (v) under the definition of Good Reason in this Section 9(c)) commencing with the second of the Company's standard payroll dates falling after such termination; provided, however, that, if necessary to avoid the application of Section 409A of the Code to the Severance, Executive shall not receive any installment payment until the First Payment Date, and, on the First Payment Date, the Company will pay Executive an amount equal to the sum of all Severance Installments that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A;

(iv) continued health and life insurance benefits for Executive and his spouse and dependents, if any, for a thirty six (36) month period following the date of Executive's termination of employment, on the same basis as such benefits are provided from time to time to actively employed senior executives of the Company; provided, that the Company's obligation to provide such health and life insurance benefits shall cease with respect to such benefits at the time Executive becomes eligible for such benefits from another employer;

(v) three years of additional service credit and credit for three years of additional age under the Company's employee pension plans, except for under any plan that is qualified or intended to be qualified under the provisions of Section 401 of the Code, for purposes of benefit accrual, matching contributions, vesting and eligibility for retirement. For the avoidance of doubt, no amounts provided in Section 9(c)(ii) or (iii) of this Agreement shall be included in such calculation, and Executive shall not be entitled to receive any payments pursuant to any non-qualified pension plan of the Company until expiration of the thirty six (36) month period following the Executive's termination of employment under this Section 9(c); and

(vi) if, as of the date of such termination, (a) Executive is not eligible to participate in any retiree medical or life insurance program of the Company and (b) Executive would have at least 10 years of service with the Company and reached at least age 55 if credited with three years of additional age and service, then the Company shall purchase for Executive a medical and/or life insurance policy, as applicable, that provides coverage that is as comparable as is commercially available to the coverage under the retiree medical and/or retiree life insurance program of the Company, as applicable, as in effect as of the date of Executive's termination of employment. For the avoidance of doubt, nothing in this Section 9(c)(vi) shall provide Executive with any extra age or service credit for purposes of eligibility or for any other purpose under any retiree medical or life insurance program of the Company.

Notwithstanding anything to the contrary in this Agreement, no further payments or benefits shall be due under this Section 9(c) if, at any time after Executive's employment is terminated pursuant to this Section 9(c) and prior to the time when any payment is made or benefit provided pursuant to this Section 9(c), the Board determines, in accordance with the procedures set forth in Section 9(a) of this Agreement, that grounds existed, on or prior to the date of termination of Executive's employment with the Company, including prior to the Effective Date, for the Company to terminate Executive's employment for Cause; provided,

however, that, Executive shall in all events be entitled to receive his Base Salary through the date of termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination.

Executive shall have no rights to any further compensation (including any Base Salary, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following a termination pursuant to this Section 9(c) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company. Executive and the Company acknowledge that any payments and benefits provided to Executive under clauses (ii) through (vi) of this Section 9(c) relate solely to services rendered by Executive to the Company on and after the Effective Date.

For purposes of this Agreement, "Good Reason" means:

(i) any change in the duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material and adverse respect with Executive's current position(s), duties, responsibilities or status with the Company (including any material and adverse diminution of such duties or responsibilities); provided, however, that Good Reason shall not be deemed to occur pursuant to this clause (i) solely on account of the Company no longer being a publicly traded entity or on account of any change to Executive's duties as a result of his physical or mental incapacity;

(ii) a material and adverse change in Executive's titles or offices (including his position as Executive Vice President and Chief Financial Officer) with the Company; provided, however, that Good Reason shall not be deemed to occur pursuant to this clause (ii) on account of any change to Executive's titles or offices as a result of his physical or mental incapacity;

(iii) any material breach of this Agreement by the Company;

(iv) the failure of the Compensation Committee to adopt, by December 31, 2005 (or such later date mutually agreed by Executive and the Compensation Committee), an incentive compensation program in respect of each of the 2006 and 2007 fiscal years setting forth target awards that are, in the aggregate, no less than $5,000,000 and, as and if appropriate to the award type, performance metrics and payout schedules for earning target, above-target, or below-target award amounts;

(v) within 30 days following notice by the Compensation Committee to Executive of adoption of an incentive compensation program in respect of each of the 2006 and 2007 fiscal years, Executive's written notification to the Compensation Committee that such program is not acceptable to Executive; or

(vi) the relocation of Executive's primary office to a location that is more than thirty five (35) miles from both of (A) the Company's headquarters in New

York, New York, unless such office is moved closer to Executive's primary residence at the time of such relocation, and (B) Executive's residence at the time of such relocation;

provided that, a termination by Executive with Good Reason shall be effective only if, within thirty (30) days following Executive's first becoming aware of the circumstances giving rise to Good Reason, Executive delivers a Notice of Termination for Good Reason by Executive to the Company, and the Company within thirty (30) days following its receipt of such notification has failed to cure the circumstances giving rise to Good Reason.

(d) Termination by Executive without Good Reason. The Employment Term, and Executive's employment hereunder, may be terminated by Executive without Good Reason following the delivery of a Notice of Termination to the Company. Upon a termination by Executive pursuant to this Section 9(d), Executive shall be entitled to his Base Salary through the date of such termination and reimbursement for any unreimbursed business expenses properly incurred by Executive in accordance with Company policy through the date of Executive's termination, and he shall have no rights to any further compensation (including any Base Salary, Transition Bonus, Annual Bonus, payments under Section 3(b) of this Agreement or any long-term or equity-based compensation awards) or any other benefits under this Agreement. All other benefits, if any, due Executive following termination pursuant to this Section 9(d) shall be determined in accordance with the plans, policies and practices of the Company; provided, however, that Executive shall not participate in any severance plan, policy or program of the Company.

(e) Release. Notwithstanding any other provision of this Agreement to the contrary, Executive acknowledges and agrees that any and all payments and benefits to which Executive is entitled under Section 9(b) or Section 9(c) of this Agreement are conditional upon and subject to Executive's execution of a general release and waiver, substantially in the form attached as Exhibit A hereto, of all claims Executive may have against the Company and its directors, officers and affiliates, except as to matters covered by provisions of this Agreement that expressly survive the termination of this Agreement.

(f) Notice of Termination. Any purported termination of employment by the Company or Executive, other than any termination due to Executive's death, shall be communicated by a written Notice of Termination to Executive or the Company, respectively, delivered in accordance with Section 15(i) hereof. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in the Agreement relied upon, the date of termination, and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of employment under the provision so indicated. The date of termination of Executive's employment shall be the date so stated in the Notice of Termination, which date, in the event of a termination by Executive pursuant to Section 9(d), shall be no less than sixty (60) days following the delivery of a Notice of Termination; provided, however, that in the case of a termination for Cause by the Company, the date of termination shall be the date the Notice of Termination is delivered in accordance with Section 15(i).

(g) Continuation of Employment; Termination On or After Expiration of Employment Term. Unless the parties otherwise agree in writing, continuation of Executive's employment with the Company beyond the expiration of the Employment Term shall be deemed an employment at will and shall not be deemed to extend any of the provisions of this Agreement, and Executive's employment may thereafter be terminated at will by Executive or the Company. The expiration of the Employment Term on the date immediately preceding the third anniversary of the Effective Date shall not be cause for the payment of severance or post-employment benefits pursuant to this Agreement if Executive is not otherwise terminated pursuant to Section 9 of this Agreement prior to such date.

10. Certain Additional Payments by the Company.

(a) If it is determined (as hereafter provided) that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program or arrangement of the Company, including, without limitation, any restricted stock, stock option, stock appreciation right or similar right, or the lapse or termination of any restriction on or the vesting or exercisability of any of the foregoing (a "Payment"), would be subject to the excise tax imposed by Section 4999 of the Code (or any successor provision thereto), or to any similar tax imposed by state or local law, or any interest or penalties with respect to such excise tax (such tax or taxes, together with any such interest and penalties, are hereafter collectively referred to as the "Excise Tax"), then the Executive will be entitled to receive an additional payment or payments (a "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including any Excise Tax, imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments.

(b) Subject to the provisions of Section 10(f) of this Agreement, all determinations required to be made under this Section 10, including whether an Excise Tax is payable by Executive and the amount of such Excise Tax and whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, will be made by a nationally recognized firm of certified public accountants (the "Accounting Firm") chosen by the Company. The Company will direct the Accounting Firm to submit its determination and detailed supporting calculations to both the Company and Executive within fifteen (15) calendar days after the date of the event giving rise to the Payment or the date of Executive's termination of employment, if applicable, and any other such time or times as may be requested by the Company or Executive. If the Accounting Firm determines that any Excise Tax is payable by Executive, the Company will pay the required Gross-Up Payment to Executive within five (5) business days after receipt of such determination and calculations. If the Accounting Firm determines that no Excise Tax is payable by Executive, it will, at the same time as it makes such determination, furnish Executive with an opinion that he has substantial authority not to report any Excise Tax on his federal, state, local income or other tax return. Any determination by the Accounting Firm as to the amount of the Gross-Up Payment will be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code (or any successor provision thereto) and the possibility of similar uncertainty regarding applicable state or local tax law at the time of

any determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"), consistent with the calculations required to be made hereunder. In the event that the Company exhausts or fails to pursue its remedies pursuant to Section 10(f) hereof and Executive thereafter is required to make a payment of any Excise Tax, Executive will direct the Accounting Firm to determine the amount of the Underpayment that has occurred and to submit its determination and detailed supporting calculations to both the Company and Executive as promptly as possible. Any such Underpayment will be promptly paid by the Company to, or for the benefit of, Executive within five (5) business days after receipt of such determination and calculations.

(c) The Company and Executive will each provide the Accounting Firm access to and copies of any books, records and documents in the possession of the Company or Executive, as the case may be, reasonably requested by the Accounting Firm, and otherwise cooperate with the Accounting Firm in connection with the preparation and issuance of the determination contemplated by Section 10(b) of this Agreement.

(d) The federal, state and local income or other tax returns filed by Executive will be prepared and filed on a consistent basis with the determination of the Accounting Firm with respect to the Excise Tax payable by Executive. Executive will make proper payment of the amount of any Excise Tax, and, at the request of the Company, provide to the Company true and correct copies (with any amendments) of his federal income tax return as filed with the Internal Revenue Service (the "IRS") and corresponding state and local tax returns, if relevant, as filed with the applicable taxing authority, and such other documents reasonably requested by the Company, evidencing such payment. If prior to the filing of Executive's federal income tax return, or corresponding state or local tax return, if relevant, the Accounting Firm determines that the amount of the Gross-Up Payment should be reduced, Executive will, within five (5) business days pay to the Company the amount of such reduction.

(e) The fees and expenses of the Accounting Firm for its services in connection with the determinations and calculations contemplated by Section 10(b) and Section 10(d) of this Agreement will be borne by the Company and paid as incurred. If such fees and expenses are initially advanced by Executive, the Company will reimburse Executive the full amount of such fees and expenses within five (5) business days after receipt from Executive of a statement therefor and reasonable evidence of his payment thereof.

(f) Executive will notify the Company in writing of any claim by the IRS that, if successful, would require the payment by the Company of a Gross-Up Payment. Such notification will be given as promptly as practicable but no later than ten (10) business days after Executive actually receives notice of such claim and Executive will further apprise the Company of the nature of such claim and the date on which such claim is requested to be paid (in each case, to the extent known by Executive). Executive will not pay such claim prior to the earlier of (x) the expiration of the thirty (30) calendar-day period following the date on which he gives such notice to the Company and (y) the date that any payment of amount with respect to such claim is due. If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive will:

(i) provide the Company with any written records or documents in his possession relating to such claim reasonably requested by the Company;

(ii) take such action in connection with contesting such claim as the Company will reasonably request in writing from time to time, including without limitation accepting legal representation with respect to such claim by an attorney competent in respect of the subject matter and reasonably selected by the Company;

(iii) cooperate with the Company in good faith in order effectively to contest such claim; and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company will bear and pay directly all costs and expenses (including interest and penalties) incurred in connection with such contest and will indemnify and hold harmless Executive, on an after-tax basis, for and against any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limiting the foregoing provisions of this Section 10(f), the Company will control all proceedings taken in connection with the contest of any claim contemplated by this Section 10(f) and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim (provided that Executive may participate therein at his own cost and expense) and may, at its option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company will determine; provided, that if the Company directs Executive to pay the tax claimed and sue for a refund, the Company will advance the amount of such payment to Executive on an interest-free basis and will indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance; and provided further, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which the contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of any such contested claim will be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and Executive will be entitled to settle or contest, as the case may be, any other issue raised by the IRS or any other taxing authority.

(g) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 10 (f) hereof, Executive receives any refund with respect to such claim, Executive will (subject to the Company's complying with the requirements of Section 10(f) hereof) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after any taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 10(f) hereof, a determination is made that Executive will not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial or

refund prior to the expiration of thirty (30) calendar days after such determination, then such advance will be forgiven and will not be required to be repaid and the amount of such advance will offset, to the extent thereof, the amount of Gross-Up Payment required to be paid pursuant to this Section 10.

(h) If it is ultimately determined (by IRS private letter ruling or closing agreement, court decision or otherwise) that any Gross-Up Payments and/or advances and/or Underpayments and/or any other amounts paid or made by the Company pursuant to this Section 10 were not necessary to accomplish the purpose of this Section 10, the Executive shall promptly cooperate with the Company to correct such overpayments (by way of assigning any refund to the Company as provided herein, by direct repayment or otherwise) in a manner consistent with the purpose of this Section 10, which is to protect the Executive by making him whole, but not more than whole, on an after-tax basis, from the application of the Excise Tax.

11. Restrictive Covenants.

(a) Non-Competition/Non-Solicitation. Executive acknowledges and recognizes the highly competitive nature of the businesses of the Company and its subsidiaries and controlled affiliates and accordingly agrees as follows:

(i) While employed by the Company and for a period of twelve (12) months (eighteen (18) months in the event of a termination by Executive for Good Reason based on the circumstances described in clause (iv) or clause (v) under the definition of Good Reason in Section 9(c) of this Agreement) following the date Executive ceases to be employed by the Company, if such termination occurs during the Employment Term (the "Restricted Period"), Executive will not directly or indirectly, (w) engage in any "Competitive Business" (defined below) for Executive's own account, (x) enter the employ of, or render any services to, any person engaged in any Competitive Business, (y) acquire a financial interest in, or otherwise become actively involved with, any person engaged in any Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, or (z) interfere with business relationships (whether formed before or after the Effective Date) between the Company and customers or suppliers of, or consultants to, the Company.

(ii) For purposes of this Section 11, a "Competitive Business" means, as of any date, including during the Restricted Period, any person or entity (including any joint venture, partnership, firm, corporation or limited liability company) that engages in or proposes to engage in the following activities in any geographical area in which the Company does business: (A) the property and casualty insurance business, including commercial insurance, business insurance, personal insurance and specialty insurance; (B) the life and accident and health insurance business; (C) the underwriting, reinsurance, marketing or sale of (but not brokerage of) (y) any form of insurance of any kind that the Company as of such date does, or proposes to, underwrite, reinsure, market or sell (any such form of insurance, a "Company Insurance Product"), or (z) any other form of insurance that is marketed or sold in competition with any Company Insurance Product; (D) retirement services and mutual funds

services; or (E) any other business that as of such date is a direct and material competitor of one of the Company's principal businesses.

(iii) For purposes of this Section 11, the Company shall be construed to include the Company and its subsidiaries and controlled affiliates.

(iv) Notwithstanding anything to the contrary in the Agreement, Executive may (A) directly or indirectly, own, solely as an investment, securities of any person engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if Executive (x) is not a controlling person of, or a member of a group which controls, such person and (y) does not, directly or indirectly, own one percent (1%) or more of any class of securities of such person, and (B) during the portion of the Restricted Period following termination of Executive's employment, be employed by or provide services to, any private equity firm or hedge fund, so long as Executive has no participation whatsoever in any fund invested in any business described in clauses (A) through (C) of Section 11(a)(ii) of this Agreement.

(v) During the Restricted Period, Executive will not, directly or indirectly, without the Company's written consent, solicit or encourage to cease to work with the Company any person who holds a position that is designated as a "senior partner" or "partner" for purposes of eligibility to participate in any deferred compensation profit participation program of the Company (or any similar designation in any successor or substitute plan or program (each, a "DCPPP Senior Partner or Partner"), any employee holding the title of Vice President or higher of the Company or any business unit of the Company, or any employee designated by the Company as a "core employee" or a similar designation (a "Key Employee") or any consultant whose primary business activity consists of providing services to the Company ("Key Consultant") or who was a Key Employee of or Key Consultant then under contract with the Company within the six (6) month period preceding such activity. In addition, during the Restricted Period, Executive will not, without the Company's written consent, directly or indirectly hire any person who is or who was, within the six (6) month period preceding such activity, a DCPPP Senior Partner or Partner.

(vi) Executive understands that the provisions of this Section 11(a) may limit his ability to earn a livelihood in a business similar to the business of the Company but he nevertheless agrees and hereby acknowledges that (A) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public and (D) such provisions are not unduly burdensome to Executive. In consideration of the foregoing and in light of Executive's education, skills and abilities, Executive agrees that he shall not assert that, and it should not be considered that, any provisions of Section 11(a) otherwise are void, voidable or unenforceable or should be voided or held unenforceable.

(vii) It is expressly understood and agreed that, although Executive and the Company consider the restrictions contained in this Section 11(a) to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time

or territory or any other restriction contained in this Section 11(a) or elsewhere in this Agreement is an unenforceable restriction against Executive, the provisions of the Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

(b) Nondisparagement. Executive agrees (whether during or after Executive's employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or the officers, directors or managers of the Company other than to the extent reasonably necessary in order to (i) assert a bona fide claim against the Company arising out of Executive's employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding. The Company agrees to instruct its directors and executives not to (whether during or after Executive's employment with the Company) issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about Executive other than to the extent reasonably necessary in order to (i) assert a bona fide claim against Executive arising out of Executive's employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding.

(c) Code of Conduct. Executive agrees to abide by the terms of the Company's Code of Conduct or The Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics.

(d) Confidentiality/Company Property. Executive shall not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity, any "Confidential Information" (as defined below) except while employed by the Company, in furtherance of the business of and for the benefit of the Company, or any "Personal Information" (as defined below); provided that Executive may disclose such information when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company and/or its affiliates, as the case may be, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order Executive to divulge, disclose or make accessible such information; provided, further, that in the event that Executive is ordered by a court or other government agency to disclose any Confidential Information or Personal Information, Executive shall (i) promptly notify the Company of such order, (ii) at the written request of the Company, diligently contest such order at the sole expense of the Company as expenses occur, and (iii) at the written request of the Company, seek to obtain, at the sole expense of the Company, such confidential treatment as may be available under applicable laws for any information disclosed under such order. For purposes of this Section 11(d), (i) "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information relating to the

business of the Company or its affiliates or customers, that, in any case, is not otherwise available to the public (other than by Executive's breach of the terms hereof) and (ii) "Personal Information" shall mean any information concerning the personal, social or business activities of the officers or directors of the Company. Upon termination of Executive's employment with the Company, Executive shall return all Company property, including, without limitation, files, records, disks and any media containing Confidential Information or Personal Information.

(e) Developments. All discoveries, inventions, ideas, technology, formulas, designs, software, programs, algorithms, products, systems, applications, processes, procedures, methods and improvements and enhancements conceived, developed or otherwise made or created or produced by Executive alone or with others, and in any way relating to the business or any proposed business of the Company of which Executive has been made aware, or the products or services of the Company of which Executive has been made aware, whether or not subject to patent, copyright or other protection and whether or not reduced to tangible form, at any time during the Employment Term ("Developments"), shall be the sole and exclusive property of the Company. Executive agrees to, and hereby does, assign to the Company, without any further consideration, all of Executive's right, title and interest throughout the world in and to all Developments. Executive agrees that all such Developments that are copyrightable may constitute works made for hire under the copyright laws of the United States and, as such, acknowledges that the Company is the author of such Developments and owns all of the rights comprised in the copyright of such Developments and Executive hereby assigns to the Company without any further consideration all of the rights comprised in the copyright and other proprietary rights Executive may have in any such Development to the extent that it might not be considered a work made for hire. Executive shall make and maintain adequate and current written records of all Developments and shall disclose all Developments promptly, fully and in writing to the Company promptly after development of the same, and at any time upon request.

(f) Cooperation. During the Employment Term and at any time thereafter, Executive agrees to cooperate (i) with the Company in the defense of any legal matter involving any matter that arose during Executive's employment with the Company and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative proceeding pertaining to the Company. The Company will reimburse Executive for any reasonable travel and out of pocket expenses incurred by Executive in providing such cooperation. The Company agrees to cooperate with the Executive in the same manner as described above.

12. Enforcement. Executive acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Sections 11(a), (b), (d) and (e) of this Agreement would be inadequate and, in recognition of this fact, Executive agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, the Company shall be entitled to immediately cease paying any amounts remaining due or providing any benefits to Executive pursuant to Section 9 of this Agreement upon a determination by the Board that Executive has violated any provision of Section 11 (a), (b), (d), (e) or (f) of this Agreement, subject to payment

of all such amounts upon a final determination, in accordance with the dispute resolution mechanism contained in Section 15 of this Agreement, that Executive had not violated Section 11 (a), (b), (d), (e) or (f) of this Agreement.

13. Indemnification. At all times during and after the Employment Term, the Company shall indemnify Executive to the fullest extent permitted by the law of the state of the Company's incorporation for all actions or omissions taken or made by Executive (whether before or after the date of this Agreement) in his service to the Company or its affiliated entities for which Executive has performed or does perform services at the request of the Company, including, to the fullest extent allowed by law, the advancement to Executive of all reasonable attorneys' costs and expenses incurred by Executive in connection with any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director, officer or employee of the Company, within twenty (20) calendar days after receipt by the Company of a written request from Executive for such advance. Executive's request for advancement of attorneys' costs and expenses pursuant to the preceding sentence shall include an undertaking by Executive to repay the amount of such advance if it shall ultimately be determined pursuant to Section 15(b) of the Agreement that Executive is not entitled to be indemnified against such costs and expenses. Executive shall have the benefit of continuing directors' and officers' insurance coverage at levels no less favorable than those in effect from time to time for members of the Board and other members of the Company's senior management.

14. Executive Representation and Warranty. Executive hereby represents and warrants that, as of the date of this Agreement, during Executive's period of employment with the Company, Executive has not willfully or grossly negligently breached Executive's duties as an employee, officer or director of the Company, has not committed fraud, embezzlement or any other similar dishonest conduct in the course of his employment and has not willfully violated any material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics. As used in this Section 14, the term "willfully" shall be subject to the same limitations as the term "willful" in Section 9(a) of this Agreement.

15. Miscellaneous.

(a) No Mitigation or Offset. In the event of any termination of Executive's employment hereunder, Executive shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Agreement, and there shall be no offset against any amounts due under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(b) Arbitration. Except as provided in Section 11 of this Agreement, any dispute between the parties to this Agreement in connection with, arising out of or asserting breach of this Agreement or any statutory or common law claim by Executive relating to Executive's employment under this Agreement or rights under this Agreement (including any tort or discrimination claim), shall be exclusively resolved by binding statutory arbitration. Such dispute shall be submitted to arbitration in New York, New York, before a panel of three neutral

arbitrators in accordance with the Commercial Rules of the American Arbitration Association then in effect, and the arbitration determination resulting from any such submission shall be final and binding upon the parties hereto. Judgment upon any arbitration award may be entered in any court of competent jurisdiction.

(c) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE, WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISIONS OR THE CONFLICT OF LAWS PROVISIONS OF ANY OTHER JURISDICTION WHICH WOULD CAUSE THE APPLICATION OF ANY LAW OTHER THAN THAT OF THE STATE OF NEW YORK.

(d) Entire Agreement/Amendments. This Agreement contains the entire understanding of the parties with respect to the employment of Executive by the Company, and, without limiting the effect of the foregoing, specifically supersedes the Employment Letter. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not be altered, modified or amended except by written instrument signed by the parties hereto. Sections 3, 5, 9, 10, 11, 12, 13 and 15 of this Agreement shall survive the termination of Executive’s employment with the Company, to the extent specifically stated therein.

(e) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party’s rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(f) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(g) Successors.

(i) This Agreement is personal to Executive and shall not be assignable by Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive’s legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors.

(ii) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place, unless such assumption occurs by operation of law. As used

in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

(h) Dispute Resolution Costs; Legal Fees. In the event of any contest or dispute relating to this Agreement or the termination of Executive's employment hereunder, the Company shall reimburse 100% of Executive's reasonable legal fees if Executive substantially prevails in such contest or dispute. The costs of any arbitration pursuant to Section 15(b) (including the fees and cost of the arbitrators) shall be paid by the Company.

(i) Notice. For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, if sent by facsimile transmission or if mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by United States registered mail shall be deemed given two days after the date of deposit in the United States mail.

If to Executive, to the address as shall most currently appear on the records of the Company

With a copy to:

Wachtell, Lipton, Rosen & Katz
51 West 52nd Street
New York, NY 10019
Attn: Adam Chinn, Esq.
Fax: 212-403-2000

If to the Company, to:

American International Group, Inc.
70 Pine Street
New York, NY 10270
Fax: 212-770-1584
Attn: General Counsel

With a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
Attn: Michael J. Segal, Esq.
Fax: 212-757-3990

(j) Withholding Taxes. The Company may withhold from any amounts payable under this Agreement such Federal, state and local taxes as may be required to be withheld pursuant to any applicable law or regulation.

(k) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EXECUTIVE

/s/ Steven J. Bensinger
Steven J. Bensinger

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Kathleen E. Shannon
Name: Kathleen E. Shannon
Title: Senior Vice President, Secretary and Deputy General Counsel

EXHIBIT A

RELEASE OF CLAIMS

1. Release of Claims

In partial consideration of the payments and benefits described in Section 9 of the employment agreement (the "Employment Agreement"), effective March 14, 2005, by and between Steven J.Bensinger ("Executive") and American International Group, Inc. (the "Company"), to which Executive agrees Executive is not entitled until and unless he executes this Release, Executive, for and on behalf of himself and his heirs and assigns, subject to the following two sentences hereof, hereby waives and releases any employment, compensation or benefit-related common law, statutory or other complaints, claims, charges or causes of action of any kind whatsoever, both known and unknown, in law or in equity, which Executive ever had, now has or may have against the Company and its shareholders (other than C.V. Starr & Co., Inc. and Starr International Company, Inc.), subsidiaries, successors, assigns, directors, officers, partners, members, employees or agents (collectively, the "Releasees") by reason of facts or omissions which have occurred on or prior to the date that Executive signs this Release, including, without limitation, any complaint, charge or cause of action arising under federal, state or local laws pertaining to employment, including the Age Discrimination in Employment Act of 1967 ("ADEA," a law which prohibits discrimination on the basis of age), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans With Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, all as amended; and all other federal, state and local laws and regulations. By signing this Release, Executive acknowledges that he intends to waive and release any rights known or unknown that he may have against the Releasees under these and any other laws; provided, that Executive does not waive or release claims with respect to the right to enforce the Employment Agreement (the "Unreleased Claims"). Notwithstanding the foregoing, Executive does not release, discharge or waive any rights to indemnification that he may have under the certificate of incorporation, the by-laws or equivalent governing documents of the Company or its subsidiaries or affiliates, the laws of the State of Delaware or any other state of which such subsidiary or affiliate is a domiciliary, or any indemnification agreement between Executive and the Company, or any rights to insurance coverage under any directors' and officers' personal liability insurance or fiduciary insurance policy.

2. Proceedings

Executive acknowledges that he has not filed any complaint, charge, claim or proceeding, except with respect to an Unreleased Claim, if any, against any of the Releasees before any local, state or federal agency, court or other body (each individually a "Proceeding"). Executive represents that he is not aware of any basis on which such a Proceeding could reasonably be instituted. Executive (i) acknowledges that he will not initiate or cause to be initiated on his behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (ii) waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). Further, Executive understands that, by executing

this Release, he will be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Releasees. Notwithstanding the above, nothing in Section 1 of this Release shall prevent Executive from (i) initiating or causing to be initiated on his behalf any complaint, charge, claim or proceeding against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of his claims under the ADEA contained in Section 1 of this Release (but no other portion of such waiver); or (ii) initiating or participating in an investigation or proceeding conducted by the EEOC.

3. Time to Consider

Executive acknowledges that he has been advised that he has twenty-one (21) days from the date of receipt of this Release to consider all the provisions of this Release and he does hereby knowingly and voluntarily waive said given twenty-one (21) day period. EXECUTIVE FURTHER ACKNOWLEDGES THAT HE HAS READ THIS RELEASE CAREFULLY, HAS BEEN ADVISED BY THE COMPANY TO, AND HAS IN FACT, CONSULTED AN ATTORNEY, AND FULLY UNDERSTANDS THAT BY SIGNING BELOW HE IS GIVING UP CERTAIN RIGHTS WHICH HE MAY HAVE TO SUE OR ASSERT A CLAIM AGAINST ANY OF THE RELEASEES, AS DESCRIBED IN SECTION 1 OF THIS RELEASE AND THE OTHER PROVISIONS HEREOF. EXECUTIVE ACKNOWLEDGES THAT HE HAS NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS RELEASE, AND EXECUTIVE AGREES TO ALL OF ITS TERMS VOLUNTARILY.

4. Revocation

Executive hereby acknowledges and understands that Executive shall have seven (7) days from the date of his execution of this Release to revoke this Release (including, without limitation, any and all claims arising under the ADEA) and that neither the Company nor any other person is obligated to provide any benefits to Executive pursuant to Section 9 of the Employment Agreement until eight (8) days have passed since Executive’s signing of this Release without Executive having revoked this Release, in which event the Company immediately shall arrange and/or pay for any such benefits otherwise attributable to said eight- (8) day period, consistent with the terms of the Employment Agreement. If Executive revokes this Release, Executive will be deemed not to have accepted the terms of this Release, and no action will be required of the Company under any section of this Release.

5. No Admission

This Release does not constitute an admission of liability or wrongdoing of any kind by Executive or the Company.

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6. General Provisions

A failure of any of the Releasees to insist on strict compliance with any provision of this Release shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Release is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable, and in the event that any provision is determined to be entirely unenforceable, such provision shall be deemed severable, such that all other provisions of this Release shall remain valid and binding upon Executive and the Releasees.

7. Governing Law

The validity, interpretations, construction and performance of this Release shall be governed by the laws of the State of New York without giving effect to conflict of laws principles.

IN WITNESS WHEREOF, Executive has hereunto set Executive's hand as of the day and year set forth opposite his signature below.

____________________	____________________
DATE	Steven J. Bensinger

AMERICAN INTERNATIONAL GROUP, INC.

EXECUTIVE SEVERANCE PLAN

American International Group, Inc., a Delaware corporation (the "Company"), has adopted this American International Group, Inc. Executive Severance Plan (the "Plan"), effective as of June 27, 2005 (the "Effective Date").

I. Purpose

The Plan is maintained primarily for the purpose of providing severance payments and benefits for a select group of management or highly compensated employees covered by the Plan whose employment is terminated under the circumstances set forth in the Plan.

II. Term

The Plan shall be effective as of the Effective Date and shall continue in effect through and including the day immediately preceding the third anniversary of the Effective Date, unless further extended by the Board of Directors of the Company (the "Board").

III. Eligibility

Those executives and employees of the Company or its subsidiaries who hold positions that are designated as "senior partners" or "partners" for purposes of any deferred compensation profit participation program of the Company (or any similar designation in any successor or substitute plan or program (each, a "DCPPP Senior Partner or Partner")), or similar or successor positions, and are selected for participation by the Chief Executive Officer of the Company (the "Eligible Employees"), are eligible to participate in the Plan.

IV. Severance

If, during the term of the Plan, an Eligible Employee's employment is terminated for any reason other than the Eligible Employee's (a) death, (b) "Disability" (defined below) (c) voluntary termination by the Eligible Employee for any reason or (d) termination by the Company or its subsidiaries for "Cause" (defined below), the Eligible Employee shall be entitled to receive:

A. Within five business days following termination, a lump sum payment in an amount equal to (i) the Eligible Employee's salary through the last day of the payroll period during which such termination occurs; (ii) any declared but unpaid annual cash bonus for any fiscal year preceding the year in which the termination occurs; and (iii) reimbursement for any unreimbursed business expenses properly incurred by the Eligible Employee in accordance with Company policy through the date of the Eligible Employee's termination;

B. Subject to the Eligible Employee's continued compliance with Section VI of the Release and Restrictive Covenant Agreement (defined below) and the remaining provisions of this Section IV, an amount equal to (i) the Eligible Employee's annual base salary as of the date of termination plus the average of any aggregate annual cash bonuses and supplemental quarterly cash bonuses received by the Eligible Employee from the Company with respect to each of the three fiscal years preceding the date of termination, *divided by* (ii) 12, and *multiplied by* (iii) each full year of the Eligible Employee's service with the Company (but no less than six nor more than 24 years) (any such amount shall be referred to in this Plan as the "Severance"). The Severance shall be payable in equal installments (each, a "Severance Installment") over a number of months equal to the six- to 24-month severance multiple described above (the "Severance Period"), in accordance with the Company's normal payroll practices and commencing with the second of the Company's standard payroll dates falling after such termination; provided, that, in the discretion of the Plan Administrator (as defined in Section VII of the Plan, below), the Severance may be payable in a single lump sum payment following termination of employment; and provided, further, that, if necessary to avoid the application of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), to the Severance, the Eligible Employee shall not receive any Severance Installment until the first scheduled payroll date that occurs more than six months following the date of termination of employment (the "First Payment Date"), and, on the First Payment Date, the Company shall pay the Eligible Employee an amount equal to the sum of all Severance Installments that would have been payable in respect of the period preceding the First Payment Date but for the delay imposed on account of the aforementioned Section 409A;

C. Continued life and health insurance benefits for the Eligible Employee and his or her spouse and dependents, if any, until the earlier of the expiration of the Severance Period and the date the Eligible Employee is eligible to receive such benefits from a subsequent employer. During the period that the Eligible Employee and any spouse or dependents are receiving benefits pursuant to this Section IV.C, the Eligible Employee will be required to pay the costs of such coverage on the same basis as when the Eligible Employee was actively employed (without taking account of the pre-tax nature, if applicable, of such payments while the Eligible Employee was actively employed). Coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 shall not commence until the expiration of the Severance Period; and

D. Additional service credit and credit for additional age in an amount equal to the number of months in the Severance Period, under the Company's employee pension plans, except for under any plan that is qualified or intended to be qualified under the provisions of Section 401 of the Code, for purposes of benefit accrual, matching contributions, vesting and eligibility for retirement. For the avoidance of doubt, no amounts provided in Section IV.B of this Plan shall be included in the calculation of any benefits to an Eligible Employee under any employee pension plan of the Company that is not qualified or intended to be qualified under the provisions of Section 401 of the Code. Eligible Employees are not entitled to receive any payments pursuant to any such non-qualified pension plan of the Company until the expiration of the Severance Period.

Notwithstanding anything to the contrary in the Plan, no further payments or benefits shall be due under this Section IV if at any time after the Eligible Employee's employment is terminated and prior to the time when any payment is made or benefit provided pursuant to this Section IV (i) the Eligible Employee breaches any of the provisions of Section VI of the Release and Restrictive Covenant Agreement, or (ii) the Plan Administrator determines that grounds existed, on or prior to the date of termination of the Eligible Employee's employment with the Company, including prior to the Effective Date, for the Company to terminate the Eligible Employee's employment for Cause; provided, however, that, the Eligible Employee shall in all events be entitled to receive his or her base salary through the date of termination and reimbursement for any unreimbursed business expenses properly incurred by the Eligible Employee in accordance with Company policy through the date of the Eligible Employee's termination.

The Eligible Employee shall have no further rights to any compensation or any other benefits under this Plan. All other benefits, if any, due an Eligible Employee following a termination of employment shall be determined in accordance with the plans, policies and practices of the Company or any subsidiary of the Company.

For purposes of the Plan, "Disability" shall mean a condition which has entitled an Eligible Employee to receive benefits under any long-term disability policy of the Company, after taking into account any applicable waiting period.

For purposes of the Plan, "Cause" shall mean, whether occurring prior to, or on or after the Effective Date, (i) the Eligible Employee's continued failure to perform substantially his or her duties with the Company or any subsidiary of the Company (other than any such failure resulting from the Eligible Employee's incapacity due to physical or mental illness) for a period of 10 days after a written demand for substantial performance is delivered to the Eligible Employee by the Company, which specifically identifies the manner in which the Company believes that the Eligible Employee has not substantially performed the Eligible Employee's duties, (ii) the Eligible Employee's malfeasance or misconduct, (iii) the Eligible Employee's knowing and material violation of a material provision of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics, as such codes of conduct may be in effect from time to time, or other policies regarding behavior of employees or (iv) conviction of, or entry of a plea of guilty or no contest by the Eligible Employee with respect to, a felony or any lesser crime of which fraud or dishonesty is a material element.

V. Offset/No Mitigation

A. <u>Offset</u>

Any severance payments due to an Eligible Employee under Section IV of the Plan shall be offset by reducing such payments (but not below zero) by any severance pay, salary continuation, termination pay or similar pay or allowance which the Eligible Employee receives or is entitled to receive under (a) any employment, severance or other agreement between the Eligible Employee and the Company or a subsidiary of the

Company, (b) any other plan, policy, practice, program or arrangement of the Company or any subsidiary of the Company or (c) pursuant to any law or regulatory severance plan or arrangement, including any such law or regulatory plan or arrangement in a country outside of the United States. This Plan is not intended to, and shall not, result in any duplication of payments or benefits to any Eligible Employee.

B. No Mitigation

In order for an Eligible Employee to receive the payments and other benefits described in the Plan, the Eligible Employee shall be under no obligation to seek other employment or otherwise mitigate the obligations of the Company under this Plan, and there shall be no offset against any amounts due under this Plan on account of any remuneration attributable to any subsequent employment that the Eligible Employee may obtain.

VI. Release and Restrictive Covenant Agreement

All payments and benefits described in Section IV of this Plan are conditional upon and subject to the Eligible Employee's execution of the Release and Restrictive Covenant Agreement substantially in the form attached to this Plan as Exhibit A.

VII. Plan Administration

A. The Plan shall be interpreted, administered and operated by the Compensation Committee of the Board of Directors (the "Compensation Committee"), which shall have the complete authority, in its sole discretion, subject to the express provisions of the Plan, to interpret the Plan, adopt any rules and regulations for carrying out the Plan as may be appropriate and decide any and all matters and make any and all determinations arising under or otherwise necessary or advisable for the administration of this Plan. All interpretations and decisions by the Compensation Committee shall be final, conclusive and binding on all parties affected thereby. Notwithstanding the foregoing, the Compensation Committee shall have the right to delegate to any individual member of the Compensation Committee or to any executive of the Company any of the Compensation Committee's authority under the Plan; provided, that no person shall act as Plan Administrator in any matter directly relating to his or her eligibility or amount of benefits under the Plan. The Compensation Committee and/or the member of the Compensation Committee or the executive of the Company delegated with any authority under this Plan shall be referred to in this Plan as the "Plan Administrator."

B. All expenses and liabilities which the Plan Administrator incurs in connection with the administration of the Plan shall be borne by the Company. The Plan Administrator may employ attorneys, consultants, accountants, appraisers, brokers or other persons in connection with such administration, and the Plan Administrator, the Company and the Company's officers and directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. No member of the Compensation Committee or any executive delegated by the Compensation Committee as Plan

Administrator shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan, and all members of the Compensation Committee and any executive delegated by the Compensation Committee as the Plan Administrator shall be fully protected by the Company in respect of any such action, determination or interpretation.

VIII. Termination and Amendment

The Compensation Committee may terminate or amend the Plan at any time; provided, that no such action shall adversely affect the payments or benefits to which any Eligible Employee has become entitled by virtue of a covered employment termination prior to the time of such action.

IX. Claims and Appeals Procedures

The following claim review and claim appeal procedures apply to all claims of any nature related to the Plan. For purposes of this Plan, the "Claims Administrator" is the Company's Director of Compensation.

A. Initial Claim

To the extent that any Eligible Employee believes that he or she is entitled to a benefit under this Plan that such Eligible Employee has not received, such Eligible Employee may file a claim for benefits under the Plan, as provided in this Section IX of the Plan.

1. Procedure for Filing a Claim

An Eligible Employee must submit a claim in writing on the appropriate claim form (or in such other manner acceptable to the Plan Administrator), along with any supporting comments, documents, records and other information, to the Plan Administrator in person or by messenger.

If an Eligible Employee fails to properly file a claim for a benefit under the Plan, the Eligible Employee will be considered not to have exhausted all administrative remedies under the Plan, and will not be able to bring any legal action for the benefit. Claims and appeals of denied claims may be pursued by an Eligible Employee, or if approved by the Plan Administrator, by an Eligible Employee's authorized representative.

2. Initial Claim Review

The Claims Administrator will conduct the initial claim review. The Claims Administrator will consider the applicable terms and provisions of the Plan and amendments to the Plan, and any information and evidence presented by you, and any other relevant information.

3. Initial Benefit Determination

(a) Timing of Notification on Initial Claim

The Plan Administrator or the Claims Administrator will notify an Eligible Employee about his or her claim within a reasonable period of time, but, in any event, within 90 days after the Plan Administrator receives the Eligible Employee's claim, unless the Claims Administrator determines that special circumstances require an extension of time for processing the claim. If the Claims Administrator determines that an extension is needed, the Eligible Employee will be notified before the end of the initial 90-day period. The notification will say what special circumstances require an extension of time. The Eligible Employee will be told the date by which the Claims Administrator expects to render the determination, which in any event will be within 90 days from the end of the initial 90-day period.

(b) Manner and Content of Notification of Denied Claim

The Plan Administrator or the Claims Administrator will provide an Eligible Employee with written or electronic notice of any denial, in accordance with applicable U.S. Department of Labor regulations. The notification will include:

(i) the specific reason or reasons for the denial;

(ii) reference to the specific provision(s) of the Plan on which the determination is based;

(iii) a description of any additional material or information necessary for an Eligible Employee to revise the claim and an explanation of why such material or information is necessary; and

(iv) a description of the Plan's review procedures and the time limits applicable to such procedures.

B. Review of Initial Benefit Denial

1. Procedure for Filing an Appeal of a Denial

Any appeal of a denial must be delivered to the Plan Administrator within 60 days after an Eligible Employee receives notice of denial. Failure to appeal within the 60-day period will be considered a failure to exhaust all administrative remedies under the Plan and will make an Eligible Employee unable to bring a legal action to recover a benefit under the Plan. An Eligible Employee's appeal must be in writing, using the appropriate form provided by the Plan Administrator (or in such other manner acceptable to the Plan Administrator). The request for an appeal must be filed with the Plan Administrator in person or by messenger, in either case, evidenced by written receipt or by first-class postage-paid mail and return receipt requested, to the Plan Administrator.

2. Review Procedures for Denials

The Plan Administrator will provide a review that takes into account all comments, documents, records and other information submitted by an Eligible Employee without regard to whether such information was submitted or considered in the initial benefit determination. An Eligible Employee will have the opportunity to submit written comments, documents, records and other information relating to the claim and will be provided, upon request and free of charge, reasonable access to and copies of all relevant documents.

3. Timing of Notification of Benefit Determination on Review

The Plan Administrator will notify an Eligible Employee of the Plan Administrator's decision within a reasonable period of time, but in any event within 60 days after the Plan Administrator receives the Eligible Employee's request for review, unless the Plan Administrator determines that special circumstances require more time for processing the review of the adverse benefit determination.

If the Plan Administrator determines that an extension is required, the Plan Administrator will tell an Eligible Employee in writing before the end of the initial 60-day period. The Plan Administrator will tell the Eligible Employee the special circumstances that require an extension of time, and the date by which the Plan Administrator expects to render the determination on review, which in any event will be within 60 days from the end of the initial 60-day period.

If such an extension is necessary because an Eligible Employee did not submit the information necessary to decide the claim, the time period in which the Plan Administrator is required to make a decision will be frozen from the date on which the notification is sent to the Eligible Employee until the Eligible Employee responds to the request for additional information. If you fail to provide the necessary information in a reasonable period of time, the Plan Administrator may, in its discretion, decide the Eligible Employee's claim based on the information already provided.

4. Manner and Content of Notification of Benefit Determination on Review

The Plan Administrator will provide a notice of the Plan's benefit determination on review, in accordance with applicable U.S. Department of Labor regulations.

If an Eligible Employee's appeal is denied, the notification will set forth:

(a) the specific reason or reasons for the denial;

(b) reference to the specific provision(s) of the Plan on which the determination is based; and

(c) a statement that the Eligible Employee is entitled to receive, upon request and free of charge, reasonable access to and copies of all relevant documents.

C. Legal Action

An Eligible Employee cannot bring any arbitration proceedings to recover any benefit under the Plan if the Eligible Employee does not file a valid claim for a benefit and seek timely review of a denial of that claim. In addition, no legal action may be brought more than two years after the later of (a) the date an Eligible Employee's claim arose, or (b) the date of the Plan Administrator's final determination on an Eligible Employee's claim.

X. Arbitration

Except as provided in the Release and Restrictive Covenant Agreement and in Section IX of the Plan, any dispute in connection with or arising out of the Plan or any statutory or common law claim by an Eligible Employee relating to the Eligible Employee's rights under the Plan, shall be exclusively resolved by binding statutory arbitration. Such dispute shall be submitted to arbitration in New York, New York, before a panel of three neutral arbitrators in accordance with the Commercial Rules of the American Arbitration Association then in effect, and the arbitration determination resulting from any such submission shall be final and binding upon the parties hereto. Judgment upon any arbitration award may be entered in any court of competent jurisdiction.

XI. Withholding Taxes

The Company may withhold from any amounts payable under the Plan such Federal, state, local or other taxes as may be required to be withheld pursuant to any applicable law or regulation.

XII. Miscellaneous

A. No Effect on Other Benefits

Severance payments and benefits shall not be counted as compensation for purposes of determining benefits under other benefit plans, programs, policies and agreements, except to the extent expressly provided therein or herein.

B. Unfunded Obligation

All severance payments and benefits provided under the Plan shall constitute an unfunded obligation of the Company. Payments and benefits under the Plan are made, when due, entirely by the Company from its general assets. This Plan shall

constitute solely an unsecured promise by the Company to provide such benefits to Eligible Employees to the extent provided herein. For the avoidance of doubt, any pension, health or life insurance benefits to which an Eligible Employee may be entitled under this Plan shall be provided under other applicable employee benefit plans of the Company. This Plan does not provide the substantive benefits under such other employee benefit plans, and nothing in this Plan shall restrict the Company's ability to amend, modify or terminate such other employee benefit plans.

C. Employment Status

The Plan is not a contract of employment, does not guarantee the Eligible Employee employment for any specified period and does not limit the right of the Company or any subsidiary of the Company to terminate the employment of the Eligible Employee at any time or to change the status of any Eligible Employee's employment or to change any employment policies.

D. Section Headings

The section headings contained in this Plan are included solely for convenience of reference and shall not in any way affect the meaning of any provision of this Plan.

E. Governing Law

It is intended that the Plan be an "employee welfare benefit plan" within the meaning of Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") maintained for the purpose of providing benefits for a select group of management or highly compensated employees, and the Plan shall be administered in a manner consistent with such intent. The administrator of the Plan will provide any documents relating to the Plan to the Secretary of the U.S. Department of Labor upon request. The Plan and all rights under the Plan shall be governed and construed in accordance with ERISA, and, to the extent not preempted by federal law, with the laws of the state of New York. The Plan shall also be subject to all applicable non-U.S. laws as to Eligible Employees located outside of the United States. Without limiting the generality of this Section XII.E, it is intended that the Plan comply with Section 409A of the Code, and, in the event that the Plan is determined to be a "deferred compensation plan" within the meaning of Section 409A(d)(1) of the Code, the Compensation Committee shall, as necessary, adopt such conforming amendments as are necessary to comply with Section 409A of the Code without reducing the payments and benefits due to the Eligible Employee under the Plan.

F. Assignment

This Plan shall inure to the benefit of and shall be enforceable by an Eligible Employee's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If an Eligible Employee should die while any amount is still payable to the Eligible Employee under this Plan had the

Eligible Employee continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Plan to the Eligible Employee’s estate. An Eligible Employee’s rights under this Plan shall not otherwise be transferable or subject to lien or attachment.

Exhibit A

RELEASE AND RESTRICTIVE COVENANT AGREEMENT

This Release and Restrictive Covenant Agreement (the “Agreement”) is entered into by and between ___(the “Employee”) and American International Group, Inc., a Delaware Corporation (the “Company”), on ______ ___, 20___.

I. Release of Claims

In partial consideration of the payments and benefits described in Section IV of the Company’s Executive Severance Plan (the “Plan”), to which the Employee agrees the Employee is not entitled until and unless he executes this Agreement, the Employee, for and on behalf of himself and his heirs and assigns, subject to the following two sentences hereof, hereby waives and releases any common law, statutory or other complaints, claims, charges or causes of action of any kind whatsoever, both known and unknown, in law or in equity, which the Employee ever had, now has or may have against the Company and its shareholders (other than C.V. Starr & Co., Inc. and Starr International Company, Inc.), subsidiaries, successors, assigns, directors, officers, partners, members, employees or agents (collectively, the “Releasees”) by reason of facts or omissions which have occurred on or prior to the date that the Employee signs this Agreement, including, without limitation, any complaint, charge or cause of action arising under federal, state or local laws pertaining to employment, including the Age Discrimination in Employment Act of 1967 (“ADEA,” a law which prohibits discrimination on the basis of age), the National Labor Relations Act, the Civil Rights Act of 1991, the Americans With Disabilities Act of 1990, Title VII of the Civil Rights Act of 1964, all as amended; and all other federal, state and local laws and regulations. By signing this Agreement, the Employee acknowledges that he intends to waive and release any rights known or unknown that he may have against the Releasees under these and any other laws; provided, that the Employee does not waive or release claims with respect to the right to enforce his rights under the Plan (the “Unreleased Claims”).

II. Proceedings

The Employee acknowledges that he has not filed any complaint, charge, claim or proceeding, except with respect to an Unreleased Claim, if any, against any of the Releasees before any local, state or federal agency, court or other body (each individually a “Proceeding”). The Employee represents that he is not aware of any basis on which such a Proceeding could reasonably be instituted. The Employee (a) acknowledges that he will not initiate or cause to be initiated on his behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (b) waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, including any Proceeding conducted by the Equal Employment Opportunity Commission (“EEOC”). Further, the Employee understands that, by executing this Agreement, he will be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Releasees. Notwithstanding the above, nothing in Section I of this Agreement shall prevent the Employee from (x) initiating or

causing to be initiated on his behalf any complaint, charge, claim or proceeding against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of his claims under the ADEA contained in Section I of this Agreement (but no other portion of such waiver); or (y) initiating or participating in an investigation or proceeding conducted by the EEOC.

III. Time to Consider

The Employee acknowledges that he has been advised that he has 21 days from the date of receipt of this Agreement to consider all the provisions of this Agreement and he does hereby knowingly and voluntarily waive said given 21 day period. THE EMPLOYEE FURTHER ACKNOWLEDGES THAT HE HAS READ THIS AGREEMENT CAREFULLY, HAS BEEN ADVISED BY THE COMPANY TO, AND HAS IN FACT, CONSULTED AN ATTORNEY, AND FULLY UNDERSTANDS THAT BY SIGNING BELOW HE IS GIVING UP CERTAIN RIGHTS WHICH HE MAY HAVE TO SUE OR ASSERT A CLAIM AGAINST ANY OF THE RELEASEES, AS DESCRIBED IN SECTION I OF THIS AGREEMENT AND THE OTHER PROVISIONS HEREOF. THE EMPLOYEE ACKNOWLEDGES THAT HE HAS NOT BEEN FORCED OR PRESSURED IN ANY MANNER WHATSOEVER TO SIGN THIS AGREEMENT, AND THE EMPLOYEE AGREES TO ALL OF ITS TERMS VOLUNTARILY.

IV. Revocation

The Employee hereby acknowledges and understands that the Employee shall have seven days from the date of the Employee's execution of this Agreement to revoke this Agreement (including, without limitation, any and all claims arising under the ADEA) and that neither the Company nor any other person is obligated to provide any benefits to the Employee pursuant to Section IV of the Plan until eight days have passed since the Employee's signing of this Agreement without the Employee having revoked this Agreement, in which event the Company immediately shall arrange and/or pay for any such benefits otherwise attributable to said eight-day period, consistent with the terms of the Plan. If the Employee revokes this Agreement, the Employee will be deemed not to have accepted the terms of this Agreement, and no action will be required of the Company under any section of this Agreement.

V. No Admission

This Agreement does not constitute an admission of liability or wrongdoing of any kind by the Employee or the Company.

VI. Restrictive Covenants

A. Non-Competition/Non-Solicitation

The Employee acknowledges and recognizes the highly competitive nature of the businesses of the Company and its subsidiaries and controlled affiliates and

accordingly agrees as follows:

1. During the period commencing on the date of the Employee’s termination of employment and ending on the earlier of the (i) the one-year anniversary of such date, and (ii) the expiration of the “Severance Period” (as defined in the Plan) (the “Restricted Period”), the Employee will not, directly or indirectly, (w) engage in any “Competitive Business” (defined below) for the Employee’s own account, (x) enter the employ of, or render any services to, any person engaged in any Competitive Business, (y) acquire a financial interest in, or otherwise become actively involved with, any person engaged in any Competitive Business, directly or indirectly, as an individual, partner, shareholder, officer, director, principal, agent, trustee or consultant, or (z) interfere with business relationships between the Company and customers or suppliers of, or consultants to, the Company.

2. For purposes of this Section VI, a “Competitive Business” means, as of any date, including during the Restricted Period, any person or entity (including any joint venture, partnership, firm, corporation or limited liability company) that engages in or proposes to engage in the following activities in any geographical area in which the Company does business: (A) the property and casualty insurance business, including commercial insurance, business insurance, personal insurance and specialty insurance; (B) the life and accident and health insurance business; (C) the underwriting, reinsurance, marketing or sale of (y) any form of insurance of any kind that the Company as of such date does, or proposes to, underwrite, reinsure, market or sell (any such form of insurance, a “Company Insurance Product”), or (z) any other form of insurance that is marketed or sold in competition with any Company Insurance Product; (D) the investment and financial services business, including retirement services and mutual funds services; or (E) any other business that as of such date is a direct and material competitor of one of the Company’s principal businesses.

3. For purposes of this Section VI, the Company shall be construed to include the Company and its subsidiaries and controlled affiliates.

4. Notwithstanding anything to the contrary in this Agreement, the Employee may directly or indirectly, own, solely as an investment, securities of any person engaged in the business of the Company which are publicly traded on a national or regional stock exchange or on the over-the-counter market if the Employee (A) is not a controlling person of, or a member of a group which controls, such person and (B) does not, directly or indirectly, own one percent (1%) or more of any class of securities of such person.

5. During the Restricted Period, the Employee will not, directly or indirectly, without the Company’s written consent, solicit or encourage to cease to work with the Company any person who holds a position that is designated as a “senior partner” or “partner” for purposes of eligibility to participate in any deferred

compensation profit participation program of the Company (or any similar designation in any successor or substitute plan or program (each, a “DCPPP Senior Partner or Partner”), any employee holding the title of Vice President or higher of the Company or any business unit of the Company, or any employee designated by the Company as a “core employee” or a similar designation (a “Key Employee”) or any consultant whose primary business activity consists of providing services to the Company (“Key Consultant”) or who was a Key Employee of or Key Consultant then under contract with the Company within the six-month period preceding such activity. In addition, during the Restricted Period, the Employee will not, without the Company’s written consent, directly or indirectly hire any person who is or who was, within the six-month period preceding such activity, a DCPPP Senior Partner or Partner.

6. The Employee understands that the provisions of this Section VI.A may limit the Employee’s ability to earn a livelihood in a business similar to the business of the Company but the Employee nevertheless agrees and hereby acknowledges that (A) such provisions do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the Company, (B) such provisions contain reasonable limitations as to time and scope of activity to be restrained, (C) such provisions are not harmful to the general public and (D) such provisions are not unduly burdensome to the Employee. In consideration of the foregoing and in light of the Employee’s education, skills and abilities, the Employee agrees that he shall not assert that, and it should not be considered that, any provisions of Section VI.A. otherwise are void, voidable or unenforceable or should be voided or held unenforceable.

7. It is expressly understood and agreed that, although the Employee and the Company consider the restrictions contained in this Section VI.A to be reasonable, if a judicial determination is made by a court of competent jurisdiction that the time or territory or any other restriction contained in this Section VI.A or elsewhere in this Agreement is an unenforceable restriction against the Employee, the provisions of the Agreement shall not be rendered void but shall be deemed amended to apply as to such maximum time and territory and to such maximum extent as such court may judicially determine or indicate to be enforceable. Alternatively, if any court of competent jurisdiction finds that any restriction contained in this Agreement is unenforceable, and such restriction cannot be amended so as to make it enforceable, such finding shall not affect the enforceability of any of the other restrictions contained herein.

B. Nondisparagement

The Employee agrees (whether during or after the Employee’s employment with the Company) not to issue, circulate, publish or utter any false or disparaging statements, remarks or rumors about the Company or the officers, directors or managers of the Company other than to the extent reasonably necessary in order to (i) assert a bona fide claim against the Company arising out of the Employee’s employment with the Company, or (ii) respond in a truthful and appropriate manner to any legal process or give truthful and appropriate testimony in a legal or regulatory proceeding.

C. Code of Conduct

The Employee agrees to abide by the terms of the Company's Code of Conduct or the Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics.

D. Confidentiality/Company Property

The Employee shall not, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity, any "Confidential Information" (as defined below) except while employed by the Company, in furtherance of the business of and for the benefit of the Company, or any "Personal Information" (as defined below); provided that the Employee may disclose such information when required to do so by a court of competent jurisdiction, by any governmental agency having supervisory authority over the business of the Company and/or its affiliates, as the case may be, or by any administrative body or legislative body (including a committee thereof) with jurisdiction to order the Employee to divulge, disclose or make accessible such information; provided, further, that in the event that the Employee is ordered by a court or other government agency to disclose any Confidential Information or Personal Information, the Employee shall (i) promptly notify the Company of such order, (ii) at the written request of the Company, diligently contest such order at the sole expense of the Company as expenses occur, and (iii) at the written request of the Company, seek to obtain, at the sole expense of the Company, such confidential treatment as may be available under applicable laws for any information disclosed under such order. For purposes of this Section VI.D, (i) "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information relating to the business of the Company or its affiliates or customers, that, in any case, is not otherwise available to the public (other than by the Employee's breach of the terms hereof) and (ii) "Personal Information" shall mean any information concerning the personal, social or business activities of the officers or directors of the Company. Upon termination of the Employee's employment with the Company, the Employee shall return all Company property, including, without limitation, files, records, disks and any media containing Confidential Information or Personal Information.

E. Developments

All discoveries, inventions, ideas, technology, formulas, designs, software, programs, algorithms, products, systems, applications, processes, procedures, methods and improvements and enhancements conceived, developed or otherwise made or created or produced by the Employee alone or with others, and in any way relating to the business or any proposed business of the Company of which the Employee has been made aware, or the products or services of the Company of which the Employee has been made aware, whether or not subject to patent, copyright or other protection and whether or not reduced to tangible form, at any time during the Employee's employment with the

Company or any subsidiary of the Company ("Developments"), shall be the sole and exclusive property of the Company. The Employee agrees to, and hereby does, assign to the Company, without any further consideration, all of the Employee's right, title and interest throughout the world in and to all Developments. The Employee agrees that all such Developments that are copyrightable may constitute works made for hire under the copyright laws of the United States and, as such, acknowledges that the Company is the author of such Developments and owns all of the rights comprised in the copyright of such Developments, and the Employee hereby assigns to the Company without any further consideration all of the rights comprised in the copyright and other proprietary rights the Employee may have in any such Development to the extent that it might not be considered a work made for hire. The Employee shall make and maintain adequate and current written records of all Developments and shall disclose all Developments promptly, fully and in writing to the Company promptly after development of the same, and at any time upon request.

F. Cooperation

At any time after the date of the Employee's termination of employment, the Employee agrees to cooperate (i) with the Company in the defense of any legal matter involving any matter that arose during the Employee's employment with the Company and (ii) with all government authorities on matters pertaining to any investigation, litigation or administrative proceeding pertaining to the Company. The Company will reimburse the Employee for any reasonable travel and out of pocket expenses incurred by the Employee in providing such cooperation.

VII. Enforcement

The Employee acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of Sections VI.A, B, D and E of this Agreement would be inadequate, and, in recognition of this fact, the Employee agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available. In addition, the Company shall be entitled to immediately cease paying any amounts remaining due or providing any benefits to the Employee pursuant to Section IV of the Plan upon a determination by the "Plan Administrator" (as defined in the Plan) that the Employee has violated any provision of Section VI of this Agreement, subject to payment of all such amounts upon a final determination, in accordance with the dispute resolution mechanism contained in Section X of the Plan, that the Employee had not violated Section VI of this Agreement.

VIII. General Provisions

A. No Waiver; Severability

A failure of the Company or any of the Releasees to insist on strict

compliance with any provision of this Agreement shall not be deemed a waiver of such provision or any other provision hereof. If any provision of this Agreement is determined to be so broad as to be unenforceable, such provision shall be interpreted to be only so broad as is enforceable, and in the event that any provision is determined to be entirely unenforceable, such provision shall be deemed severable, such that all other provisions of this Agreement shall remain valid and binding upon the Employee and the Releasees.

B. Governing Law

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE, WITHOUT REGARD TO ITS CONFLICT OF LAWS PROVISIONS OR THE CONFLICT OF LAWS PROVISIONS OF ANY OTHER JURISDICTION WHICH WOULD CAUSE THE APPLICATION OF ANY LAW OTHER THAN THAT OF THE STATE OF NEW YORK.

C. Counterparts

This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

D. Notice

For the purpose of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if delivered personally, if delivered by overnight courier service, if sent by facsimile transmission or if mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses or sent via facsimile to the respective facsimile numbers, as the case may be, as set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt; provided, however, that (i) notices sent by personal delivery or overnight courier shall be deemed given when delivered; (ii) notices sent by facsimile transmission shall be deemed given upon the sender's receipt of confirmation of complete transmission, and (iii) notices sent by United States registered mail shall be deemed given two days after the date of deposit in the United States mail.

If to Executive, to the address as shall most currently
appear on the records of the Company

If to the Company, to:

American International Group, Inc.
70 Pine Street
New York, NY 10270

Fax: 212-770-1584
Attn: ___

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the day and year first above written.

EMPLOYEE

____

AMERICAN INTERNATIONAL GROUP, INC.

By: ______________________________
Name:
Title:

Ex. 10(5)

Assurance Agreement , dated as of June 27, 2005 (this "*Agreement*"), by American International Group, Inc., a Delaware corporation ("*AIG*"), in favor of each Eligible Employee (as defined below).

Recitals

A. The Covered Payments. C.V. Starr & Co., Inc. ("*Starr*") has historically offered members of AIG's senior management the opportunity to purchase shares of its common stock. The payments owed by Starr in respect of which a notice of redemption or repurchase of "Covered Stock" (as defined below) has been given in accordance with Starr's Amended and Restated Stockholders Agreement, dated as of July 16, 2002, its Certificate of Incorporation and its By-Laws, each as in effect December 31, 2004 (the "*Governing Documents*"), are referred to in this Agreement, collectively, as the "*Covered Payments*".

B. The Eligible Employees. AIG has determined, subject to the conditions set forth in this Agreement, to assure each person who was as of May 18, 2005 both (1) a stockholder of Starr and (2) an employee of AIG or its subsidiaries (each, an "*Eligible Employee*") that all Covered Payments are promptly paid to the Eligible Employee.

Now, Therefore , AIG agrees as follows, intending to be legally bound:

1. Assurance of Payment. AIG agrees to make any Covered Payment to any Eligible Employee that is not promptly paid by Starr as required by the express terms of the Governing Documents, subject to the conditions set forth in Section 2 and the terms of this Agreement. The agreement to make the payments described in this Section 1 is irrevocable.

2. Conditions. AIG's obligation to make the payments contemplated by Section 1 is subject to the following conditions:

(a) For purposes of this Agreement, "Covered Stock" shall mean all Covered Stock (as defined in Governing Documents) owned by an Eligible Employee on May 18, 2005 and all subsequent dividends of preferred stock that would constitute such Covered Stock made by Starr consistent with past practice as determined by the Compensation Committee of the Board of Directors of AIG (the "*Compensation Committee*");

(b) The obligation will apply only to the Covered Payments owed under the express terms of the Governing Documents as in effect on December 31, 2004, without giving effect to any subsequent modification, waiver or amendment or action or inaction by the directors or stockholders of Starr, in each case not approved by the Compensation Committee;

(c) The obligation will apply only to payments to an Eligible Employee who is not terminated by AIG for cause, as determined by the Compensation Committee; and

(d) The Eligible Employee shall agree to take all actions reasonably requested by the AIG to subrogate AIG to his or her rights against Starr for any payment made by AIG. Without limiting the generality of the preceding sentence, each Eligible Employee shall be required to agree, before receiving a payment pursuant to Section 1, that he or she will repay the payment if the underlying obligation is ultimately satisfied by Starr.

3. Nature of Obligations. This Agreement shall remain in full force and effect and shall be binding on AIG, its successors and assigns until all Covered Payments owed to Eligible Employees under the express terms of the Governing Documents have been made in full. In the event that any payment to an Eligible Employee in respect of a Covered Payment is rescinded or must otherwise be returned for any reason whatsoever, AIG shall remain liable under this Agreement with respect to payment as if it had not been made. AIG reserves the right to assert any and all defenses that Starr may have to any payment.

4. Subrogation. On making any payment under Section 1, AIG shall be subrogated to the rights of the Eligible Employee against Starr with respect to the underlying obligations of Starr.

5. Administration of this Agreement.

(a) This Agreement shall be administered by the Compensation Committee. Actions of the Compensation Committee may be taken by the vote of a majority of its members. The Compensation Committee may allocate among its members and delegate to any person who is not a member of the Compensation Committee any of its responsibilities and, unless the context otherwise requires, all references to the Compensation Committee in this Agreement shall include any member or person so allocated or delegated.

(b) All decisions, writings and actions under this Agreement shall be subject to the approval to the Compensation Committee in its sole and absolute discretion. Without limiting the generality of the foregoing, the Compensation Committee shall have power to interpret this Agreement, to make regulations for carrying out its purpose and to make all other determinations in connection with its administration (including whether a dividend of preferred stock by Starr is consistent with past practice as contemplated by Section 2(a) and whether an Eligible Employee has been terminated for cause, as contemplated by Section 2(c)), all of which shall be final, binding and conclusive.

(c) No member of the Board of Directors of AIG or the Compensation Committee or any employee of AIG (each such person a "*Covered Person*") shall have any liability to any person (including any Eligible Employee) for any action taken or omitted to be taken or any determination made in good faith with respect to this Agreement or any Eligible Employee's rights under it. Each Covered Person shall be indemnified and held harmless by AIG against and from any loss, cost, liability, or expense (including attorneys' fees) that may be imposed upon or incurred by such Covered Person in

connection with or resulting from any action, suit or proceeding to which such Covered Person may be a party or in which such Covered Person may be involved by reason of any action taken or omitted to be taken under the Agreement and against and from any and all amounts paid by such Covered Person, with AIG's approval, in settlement thereof, or paid by such Covered Person in satisfaction of any judgment in any such action, suit or proceeding against such Covered Person, provided that AIG shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once AIG gives notice of its intent to assume the defense, AIG shall have sole control over such defense with counsel of AIG's choice. The foregoing right indemnification shall not be available to a Covered Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Covered Person giving rise to the indemnification claim resulted from such Covered Person's bad faith, fraud or willful misconduct. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Covered Persons may be entitled under AIG's Restated Certificate of Incorporation or By-laws, as a matter of law, or otherwise, or any other power that AIG may have to indemnify such persons or hold them harmless.

(d) If the Compensation Committee shall at any time determine that any consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the making of any payment under this Agreement, or the taking of any other action thereunder (each such action, an "*Agreement Action*"), then such Agreement Action shall not be taken, in whole or in part, unless and until such consent shall have been effected or obtained to the full satisfaction of the Compensation Committee. The term "consent" as used in this Section 5(d) includes (1) any and all other consents, clearances and approvals in respect of an Agreement Action by any governmental or other regulatory body or authority and (2) any and all consents required by the Compensation Committee.

(e) The Compensation Committee's determinations under the Agreement need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, benefits under the Agreement (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Compensation Committee shall be entitled, among other things, to make non-uniform and selective determinations as to whether an Eligible Employee has been terminated for cause.

(f) Any payments under this Agreement shall not be required to be taken into account in computing the amount of salary or compensation of any Eligible Employee for the purpose of determining any contributions to or any benefits under any pension, retirement, profit-sharing, bonus, life insurance, severance or other benefit plan of AIG or any of its subsidiaries or under any agreement with any Eligible Employee, unless AIG specifically provides otherwise.

(g) Any rights or expectancy thereof which an Eligible Employee may receive pursuant to this Agreement shall not be assignable, transferable, pledged, hedged or in any manner alienated, whether by operation of law or otherwise, except as a result of death or incapacity where such rights are passed pursuant to a will or by operation of law. AIG may withhold from

any payment under this Agreement any taxes or other amounts that are required to be withheld under any law, rule or regulation.

(h) As used in this Agreement, the references to Starr include any successor to Starr approved by the Compensation Committee. If any Eligible Employee agrees with Starr to a reduced payment relative to his or her Covered Payments, AIG's obligations under this Agreement shall be reduced accordingly.

6. Governing Law; Submission to Exclusive Jurisdiction.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such State.

(b) Any dispute arising out of or in relation to this Agreement of whatsoever nature and howsoever arising shall be submitted to the exclusive jurisdiction of a state or federal court of appropriate jurisdiction located in the Borough of Manhattan, the City of New York and such determination shall be made by reference to the laws of the State of New York. By seeking or accepting any payment or benefit under this Agreement each Eligible Employee irrevocably submits to the exclusive jurisdiction of a state or federal court of appropriate jurisdiction located in the Borough of Manhattan, the City of New York over any suit, action or proceeding arising out of or relating to or concerning this Agreement. No Eligible Employee shall be entitled to any payment or benefit under this Agreement if he or she challenges such exclusive jurisdiction or the fact that the forum designated by this Section 6(b) has a reasonable relation to this Agreement and to such Eligible Employee's relationship with AIG.

In Witness Whereof , this Agreement has been duly executed and delivered by AIG as of the date first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By /s/ Martin J. Sullivan

Name: Martin J. Sullivan

Title : President and Chief Executive Officer

ASSURANCE AGREEMENT , dated as of June 27, 2005 (this "*Agreement*"), by AMERICAN INTERNATIONAL GROUP, INC., a Delaware corporation ("*AIG*"), in favor of each ELIGIBLE EMPLOYEE (as defined below).

RECITALS

A. The Covered Plans. Starr International Company, Inc. ("*SICO*") has historically established Deferred Compensation Profit Participation Plans for the benefit of employees of AIG and its subsidiaries (each such plan established through December 31, 2004, a "*Covered Plan*"). In the letter to participants attached as an Annex to this Agreement (the "*Annex*"), SICO reaffirmed its obligations under each Covered Plan.

B. The Eligible Employees. AIG has determined, subject to the conditions set forth in this Agreement, to assure each participant in a Covered Plan who was as of May 18, 2005 an employee of AIG or its subsidiaries (each, an "*Eligible Employee*") that all cash or AIG common stock, par value $2.50 per share (as adjusted for any Fundamental Transaction (as defined below), the "*Common Stock*"), due under the express terms of the Covered Plans is promptly paid or delivered to the Eligible Employee.

NOW, THEREFORE , AIG agrees as follows, intending to be legally bound:

1. Assurance of Delivery. AIG agrees (a) to pay to any Eligible Employee any cash that is not promptly paid and (b) to deliver to any Eligible Employee any shares of Common Stock that are not promptly delivered, in each case by SICO to such Eligible Employee as required by the express terms of any Covered Plan, subject to the conditions set forth in Section 2 and the terms of this Agreement. The agreement to make the deliveries and payments described in this Section 1 is irrevocable.

2. Conditions. AIG's obligation to make the deliveries and payments contemplated by Section 1 is subject to the following conditions:

(a) The obligation will apply only to the express terms of the Covered Plans as in effect on December 31, 2004, without giving effect to any subsequent modification, waiver or amendment or action or inaction by the directors of SICO (or any committee thereof), in each case not approved by the Compensation Committee of the Board of Directors of AIG (the "*Compensation Committee*");

(b) The obligation will apply only to deliveries and payments to an Eligible Employee who is not terminated by AIG for cause, as determined by the Compensation Committee;

(c) Whether obligations under the Covered Plans are satisfied by delivery of shares of Common Stock, payment of cash or combination of the two shall be determined by the Compensation Committee (from time to time, in its sole discretion and regardless of the form of consideration the directors of SICO elected to pay);

(d) AIG's total obligation under this Agreement will be limited to a combination of shares of Common Stock and cash that does not exceed the number of shares of Common Stock set forth in the Annex, as such number shall be equitably adjusted in the event of a recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation, rights offering, separation, reorganization, or liquidation or any other change in the corporate structure of AIG or shares of the Common Stock (a "*Fundamental Transaction*"), and, for purposes of calculating this limit, cash payments shall be converted into a number of shares of Common Stock based on the fair market value of the Common Stock (as determined by the Compensation Committee) on the date the payment is due under the relevant Covered Plan; and

(e) The Eligible Employee shall agree to take all actions reasonably requested by AIG to subrogate AIG to his or her rights against SICO for any delivery or payment made by AIG. Without limiting the generality of the preceding sentence, each Eligible Employee shall be required to agree, before receiving a delivery or payment pursuant to Section 1, that he or she will repay the shares or payments if the underlying obligation is ultimately satisfied by SICO.

3. Nature of Obligations. This Agreement shall remain in full force and effect and shall be binding on AIG, its successors and assigns until all deliveries and payments under the express terms of the Covered Plans to Eligible Employees have been made in full. In the event that any delivery of shares or payment to an Eligible Employee under a Covered Plan is rescinded or must otherwise be returned for any reason whatsoever, AIG shall remain liable under this Agreement with respect to delivery or payment as if it had not been made. AIG reserves the right to assert any and all defenses that SICO may have to any delivery or payment.

4. Subrogation. On making any delivery or payment under Section 1, AIG shall be subrogated to the rights of the Eligible Employee against SICO with respect to the underlying obligations of SICO.

5. Administration of this Agreement.

(a) This Agreement shall be administered by the Compensation Committee. Actions of the Compensation Committee may be taken by the vote of a majority of its members. The Compensation Committee may allocate among its members and delegate to any person who is not a member of the Compensation Committee any of its responsibilities and, unless the context otherwise requires, any and all references to the Compensation Committee in this Agreement shall include any member or person so allocated or delegated.

(b) All decisions, writings and actions under this Agreement shall be subject to the approval to the Compensation Committee in its sole and absolute discretion. Without limiting the generality of the foregoing, the Compensation Committee shall have power to interpret this Agreement, to make regulations for carrying out its purpose and to make all other

determinations in connection with its administration (including whether an Eligible Employee has been terminated for cause, as contemplated by Section 2(b), whether and how to make adjustments following a Fundamental Transaction or to adjust the maximum number of shares of Common Stock described in Section (2)(d), whether any particular obligation shall be satisfied in shares or cash, as contemplated by Section 2(c) and how the fair market value of the Common Stock shall be determined as contemplated by Section 2(d)), all of which shall be final, binding and conclusive.

(c) No member of the Board of Directors of AIG or the Compensation Committee or any employee of AIG (each such person a "*Covered Person*") shall have any liability to any person (including any Eligible Employee) for any action taken or omitted to be taken or any determination made in good faith with respect to this Agreement or any Eligible Employee's rights under this Agreement. Each Covered Person shall be indemnified and held harmless by AIG against and from any loss, cost, liability, or expense (including attorneys' fees) that may be imposed upon or incurred by such Covered Person in connection with or resulting from any action, suit or proceeding to which such Covered Person may be a party or in which such Covered Person may be involved by reason of any action taken or omitted to be taken under this Agreement and against and from any and all amounts paid by such Covered Person, with AIG's approval, in settlement thereof, or paid by such Covered Person in satisfaction of any judgment in any such action, suit or proceeding against such Covered Person, provided that AIG shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once AIG gives notice of its intent to assume the defense, AIG shall have sole control over such defense with counsel of AIG's choice. The foregoing right indemnification shall not be available to a Covered Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Covered Person giving rise to the indemnification claim resulted from such Covered Person's bad faith, fraud or willful misconduct. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Covered Persons may be entitled under AIG's Restated Certificate of Incorporation or By-laws, as a matter of law, or otherwise, or any other power that AIG may have to indemnify such persons or hold them harmless.

(d) If the Compensation Committee shall at any time determine that any consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the making of any delivery or payment under this Agreement, or the taking of any other action thereunder (each such action, an "*Agreement Action*"), then such Agreement Action shall not be taken, in whole or in part, unless and until such consent shall have been effected or obtained to the full satisfaction of the Compensation Committee. The Compensation Committee may direct that any certificate evidencing Common Stock delivered pursuant to this Agreement shall bear a legend setting forth such restrictions on transferability as the Compensation Committee may determine to be necessary or desirable, and may advise the transfer agent to place a stop transfer order against any legended shares.

The term “consent” as used in this Section 5(d) includes (1) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state, or local law, or law, rule or regulation of a jurisdiction outside the United States, (2) any other matter, which the Compensation Committee may deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made, (3) any and all other consents, clearances and approvals in respect of a Agreement Action by any governmental or other regulatory body or authority or any stock exchange or self-regulatory agency and (4) any and all consents required by the Compensation Committee. Nothing in this Agreement shall require AIG to list, register or qualify shares of Common Stock on any securities exchange.

(e) The Compensation Committee’s determinations under the Agreement need not be uniform and may be made by it selectively among persons who receive, or are eligible to receive, benefits under the Agreement (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Compensation Committee shall be entitled, among other things, to make non-uniform and selective determinations as to whether an Eligible Employee has been terminated for cause.

(f) Any deliveries of shares or payments under this Agreement shall not be required to be taken into account in computing the amount of salary or compensation of any Eligible Employee for the purpose of determining any contributions to or any benefits under any pension, retirement, profit-sharing, bonus, life insurance, severance or other benefit plan of AIG or any of its subsidiaries or under any agreement with any Eligible Employee, unless AIG specifically provides otherwise.

(g) Any rights or expectancy thereof which an Eligible Employee may receive pursuant to this Agreement shall not be assignable, transferable, pledged, hedged or in any manner alienated, whether by operation of law or otherwise, except as a result of death or incapacity where such rights are passed pursuant to a will or by operation of law. AIG may withhold from any delivery of shares or payment under this Agreement any taxes or other amounts that are required to be withheld under any law, rule or regulation.

(h) As used in this Agreement, references to SICO include any successor person or entity approved by the Compensation Committee. If any Eligible Employee agrees with SICO to a reduced delivery of shares or payment relative to that required by the express terms of any Covered Plan, AIG’s obligations under this Agreement shall be reduced accordingly.

6. Governing Law; Submission to Exclusive Jurisdiction.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to agreements made and to be performed entirely within such State.

(b) Any dispute arising out of or in relation to this Agreement of whatsoever nature and howsoever arising shall be submitted to the exclusive jurisdiction of a state or federal court of appropriate jurisdiction located in the Borough of Manhattan, the City of New York and such determination shall be made by reference to the laws of the State of New York. By seeking or accepting any share of Common Stock, payment or benefit under this Agreement each Eligible Employee irrevocably submits to the exclusive jurisdiction of a state or federal court of appropriate jurisdiction located in the Borough of Manhattan, the City of New York over any suit, action or proceeding arising out of or relating to or concerning this Agreement. No Eligible Employee shall be entitled to any share of Common Stock, payment or benefit under this Agreement if he or she challenges such exclusive jurisdiction or the fact that the forum designated by this Section 6(b) has a reasonable relation to this Agreement and to such Eligible Employee's relationship with AIG.

In Witness Whereof, this Agreement has been duly executed and delivered by AIG as of the date first above written.

AMERICAN INTERNATIONAL GROUP, INC.

By /s/ Martin J. Sullivan
Name: Martin J. Sullivan
Title: President and Chief Executive Officer

Annex

STARR INTERNATIONAL COMPANY, INC.
(Incorporated in Panama)
101, Front Street, Hamilton, Bermuda

Tel: (441) 296-6698 Fax: (441) 278-9306

April 7, 2005

To: Participants in SICO DCPPP

As all of you are undoubtedly aware, there has been considerable comment in the financial press concerning the implications of the executive changes that have taken place at AIG, and the effect that these changes will have on the relationship of AIG executives to SICO. Much of the comment is inaccurate and stems from a basic misunderstanding of this relationship between SICO and AIG.

Over the years, SICO has contingently allocated 33,135,923 of AIG shares to participants in the various DCPPP plans that date back to 1975. A large number of these shares have already been distributed to SICO participants. At December 31, 2004 there are still 22,865,429 shares set aside for participants in plans that have matured as of that date. These shares are clear contingent liability of SICO (subject to existing plan conditions) and are identified as such on the balance sheet of SICO. The directors of SICO consider this obligation of SICO to the DCPPP participants a sacrosanct commitment made to all the participants and will honor it above all other obligations. The resolve of the directors and voting shareholders to see that the participants receive these shares at the proper time is unwavering. Please do not listen to any unfounded rumors that question that commitment.

At the earliest possible time, in light of the existing conditions, SICO will prepare and have available audited financial statements, so that its accounting is fully transparent.

The directors of SICO want to thank you for your contributions to the success of AIG in the past and wish you continued success in the future.

/s/ Edward E. Matthews
E.E. Matthews
Director

Exhibit 12

American International Group, Inc.

Computation of Ratios of Earnings to Fixed Charges

Three Months Ended March 31, *(in millions, except ratios)*		**2005**	2004
Income before income taxes, minority interest and cumulative effect of an accounting change	**$**	**5,443**	$3,939
Less – Equity income of less than 50% owned persons		**39**	50
Add – Dividends from less than 50% owned persons		**3**	3
		5,407	3,892
Add – Fixed charges		**1,863**	1,629
Less – Capitalized interest		**15**	14
Income before income taxes, minority interest, cumulative effect of an accounting change and fixed charges	**$**	**7,255**	$5,507
Fixed charges:			
Interest costs	**$**	**1,812**	$1,583
Rental expense*		**51**	46
Total fixed charges	**$**	**1,863**	$1,629
Ratio of earnings to fixed charges		**3.89**	3.38
Secondary Ratio			
Interest credited to GIC and GIA policy and contract holders	**$**	**1,227**	$1,093
Total fixed charges excluding interest credited to GIC and GIA policy and contract holders	**$**	**636**	$ 536
Secondary ratio of earnings to fixed charges		**9.47**	8.24

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

The secondary ratio is disclosed for the convenience of fixed income investors and the rating agencies that serve them and is more comparable to the ratios disclosed by all issuers of fixed income securities. The secondary ratio removes interest credited to guaranteed investment contract (GIC) policyholders and guaranteed investment agreement (GIA) contractholders. Such expenses are also removed from income before income taxes, minority interest and cumulative effect of an accounting change used in this calculation. GICs and GIAs are entered into by AIG's insurance subsidiaries, principally Sun America Life Insurance Company and AIG Financial Products Corp. and its subsidiaries, respectively. The proceeds from GICs and GIAs are invested in a diversified portfolio of securities, primarily investment grade bonds. The assets acquired yield rates greater than the rates on the related policyholders obligation or agreement, with the intent of earning operating income from the spread.

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Exhibit 31

CERTIFICATIONS

I, Martin J. Sullivan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MARTIN J. SULLIVAN

Martin J. Sullivan
President and Chief Executive Officer

Date: June 28, 2005

CERTIFICATIONS

I, Steven J. Bensinger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of American International Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEVEN J. BENSINGER

Steven J. Bensinger
Executive Vice President and Chief Financial Officer

Date: June 28, 2005

Exhibit 32

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of American International Group, Inc. (the “Company”) for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Martin J. Sullivan, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MARTIN J. SULLIVAN

Martin J. Sullivan
President and Chief Executive Officer

Date: June 28, 2005

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of American International Group, Inc. (the “Company”) for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Steven J. Bensinger, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN J. BENSINGER

Steven J. Bensinger
Executive Vice President and Chief Financial Officer

Date: June 28, 2005

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.