SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

FOR THE TRANSITION PERIOD FROM _______TO ____________________

COMMISSION FILE NUMBER 1-8787

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

DELAWARE	13-2592361
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
70 PINE STREET, NEW YORK, NEW YORK	10270
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 770-7000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $2.50 PER SHARE	NEW YORK STOCK EXCHANGE, INC.

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

TITLE OF EACH CLASS	
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 SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS.

YES [X] NO [ ]

INDICATE BY CHECK MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. [ ].

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS AN ACCELERATED FILER (AS DEFINED IN RULE 12B-2 OF THE ACT).

YES [X] NO [ ]

THE AGGREGATE MARKET VALUE OF THE VOTING AND NON-VOTING COMMON EQUITY HELD BY NONAFFILIATES OF THE REGISTRANT COMPUTED BY REFERENCE TO THE PRICE AT WHICH THE COMMON EQUITY WAS LAST SOLD AS OF JUNE 28, 2002 (THE LAST BUSINESS DAY OF THE REGISTRANT'S MOST RECENTLY COMPLETED SECOND FISCAL QUARTER), WAS APPROXIMATELY $140,718,844,000.

AS OF JANUARY 31, 2003, THERE WERE OUTSTANDING 2,609,826,299 SHARES OF COMMON STOCK, $2.50 PAR VALUE PER SHARE, OF THE REGISTRANT.

DOCUMENTS INCORPORATED BY REFERENCE:

THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FILED OR TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO REGULATION 14A INVOLVING THE ELECTION OF DIRECTORS AT THE ANNUAL MEETING OF THE SHAREHOLDERS OF THE REGISTRANT SCHEDULED TO BE HELD ON MAY 14, 2003 IS INCORPORATED BY REFERENCE IN PART III OF THIS FORM 10-K.

PART I

ITEM 1. BUSINESS

American International Group, Inc. (AIG), a Delaware corporation, is a holding company which through its subsidiaries is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG's primary activities include both general and life insurance operations. Other significant activities include financial services, and retirement savings and asset management. The principal general insurance company subsidiaries are American Home Assurance Company (American Home), National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), New Hampshire Insurance Company (New Hampshire), Lexington Insurance Company (Lexington), The Hartford Steam Boiler Inspection and Insurance Company (HSB), Transatlantic Reinsurance Company, American International Underwriters Overseas, Ltd. (AIUO) and United Guaranty Residential Insurance Company. Significant life insurance operations include those conducted through American Life Insurance Company (ALICO), American International Assurance Company Limited, together with American International Assurance Company (Bermuda) Limited (AIA), Nan Shan Life Insurance Company, Ltd. (Nan Shan), American International Reinsurance Company, Ltd., AIG Star Life Insurance Co., Ltd., AIG Annuity Insurance Company (AIG Annuity), the AIG American General Life Companies (American General Life), and SunAmerica Life Insurance Company (SunAmerica Life). AIG's financial services operations are conducted primarily through International Lease Finance Corporation (ILFC), AIG Financial Products Corp. and its subsidiaries (AIGFP), and American General Finance, Inc. and its subsidiaries (AGF), while retirement savings and asset management operations include The Variable Annuity Life Insurance Company (VALIC), AIG SunAmerica Asset Management Corp. (SAAMCo), AIG SunAmerica Life Assurance Company (formerly known as Anchor National Life Insurance Company) and AIG Global Investment Group, Inc. and its subsidiaries (AIG Global Investment Group).

On August 29, 2001, AIG acquired American General Corporation (AGC). In connection with the acquisition, AIG issued approximately 290 million shares of common stock, $2.50 par value per share (common stock) in an exchange for all the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The acquisition was accounted for as a pooling of interests and all prior historical financial information presented herein has been restated to include AGC. The merger of SunAmerica Inc., a leading company in the retirement savings and asset accumulation business, with and into AIG became effective January 1, 1999. The transaction was treated as a pooling of interests for accounting purposes. AIG issued 0.855 shares of common stock in exchange for each share of SunAmerica Inc. stock outstanding at the effective time of the merger for an aggregate issuance of approximately 187.5 million shares. For information on AIG's business segments, see Note 2 of Notes to Financial Statements.

All per share information herein gives retroactive effect to all stock dividends and stock splits. As of January 31, 2003, beneficial ownership of approximately 12.0 percent, 2.2 percent and 1.8 percent of AIG common stock, was held by Starr International Company, Inc. (SICO), The Starr Foundation and C.V. Starr & Co., Inc. (Starr), respectively.

At December 31, 2002, AIG and its subsidiaries had approximately 80,000 employees.

AIG's Internet address for its corporate website is www.aigcorporate.com. AIG makes available free of charge, on or through the Investor Information section of AIG's corporate website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission.

THROUGHOUT THIS ANNUAL REPORT ON FORM 10-K, AIG PRESENTS ITS OPERATIONS IN THE WAY IT BELIEVES WILL BE MOST MEANINGFUL, AS WELL AS MOST TRANSPARENT. CERTAIN OF THE MEASUREMENTS USED BY AIG MANAGEMENT ARE "NON-GAAP FINANCIAL MEASURES" UNDER SECURITIES AND EXCHANGE COMMISSION RULES AND REGULATIONS. OPERATING INCOME AND RELATED RATES OF PERFORMANCE ARE SHOWN EXCLUSIVE OF REALIZED CAPITAL GAINS (LOSSES) AND EXCLUSIVE OF ONE OR MORE OF THE 2002 RESERVE CHARGE WHICH IS DISCUSSED UNDER LOSS RESERVE CHARGE IN MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, 2001 ACQUISITION, RESTRUCTURING AND RELATED CHARGES, AND 2001 WORLD TRADE CENTER AND RELATED LOSSES (WTC LOSSES). PREMIUM INCOME, GROSS PREMIUMS WRITTEN, STATUTORY UNDERWRITING PROFIT (LOSS) AND COMBINED RATIOS ARE PRESENTED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES PRESCRIBED BY INSURANCE REGULATORY AUTHORITIES. A RECONCILIATION OF THE "NON-GAAP FINANCIAL MEASURES" TO THE MOST EQUIVALENT MEASUREMENTS PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP) IS PRESENTED ON PAGE 20 OF THIS ANNUAL REPORT ON FORM 10-K. FOR AN EXPLANATION OF WHY AIG MANAGEMENT CONSIDERS THESE "NON-GAAP MEASURES" USEFUL TO INVESTORS, SEE EXECUTIVE SUMMARY IN MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

THE FOLLOWING TABLE SHOWS THE GENERAL DEVELOPMENT OF THE BUSINESS OF AIG ON A CONSOLIDATED BASIS, THE CONTRIBUTIONS MADE TO AIG'S CONSOLIDATED REVENUES AND OPERATING INCOME AND THE ASSETS HELD, IN THE PERIODS INDICATED BY ITS GENERAL INSURANCE, LIFE INSURANCE, FINANCIAL SERVICES, AND RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS, EQUITY IN INCOME OF MINORITY-OWNED INSURANCE COMPANIES AND OTHER REALIZED CAPITAL GAINS (LOSSES). (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND NOTES 1 AND 2 OF NOTES TO FINANCIAL STATEMENTS.)

(dollars in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000	1999	1998
GENERAL INSURANCE OPERATIONS:					
Gross premiums written	$ 37,537	$ 29,640	$ 25,050	$ 22,569	$ 20,684
Net premiums written	27,414	20,101	17,526	16,224	14,586
Net premiums earned	24,269	19,365	17,407	15,544	14,098
Adjusted underwriting profit (loss)(a)	(1,235)(b)	88(c)	785	669	531
Net investment income	2,760	2,893	2,701	2,517	2,192
Realized capital gains (losses)	(858)	(130)	38	295	205
Operating income	667(b)	2,851(c)	3,524	3,481	2,928
Identifiable assets	109,068	91,544	85,270	76,725	73,226
Loss ratio	85.8	79.5	75.3	75.5	75.6
Expense ratio	20.2	21.2	21.4	20.8	20.8
Combined ratio	106.0(b)	100.7(c)	96.7	96.3	96.4
LIFE INSURANCE OPERATIONS:					
Premium income	20,320	19,063	17,163	15,476	13,719
Net investment income	12,274	11,084	9,962	8,932	8,065
Realized capital losses	(1,053)	(254)	(162)	(148)	(74)
Operating income (d)	4,929	4,675	4,058	3,610	3,249
Identifiable assets	339,847	296,648	248,982	231,843	197,851
Insurance in-force at end of year	1,324,451	1,228,501	971,892	950,933	845,045
FINANCIAL SERVICES OPERATIONS:					
Commissions, transaction and other fees	6,815	6,485	5,954	5,069	4,653
Operating income	2,189	1,991	1,666	1,417	1,172
Identifiable assets	124,617	107,322	94,173	78,868	70,065
RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS:					
Commissions and other fees	3,485	3,712	3,465	3,093	2,715
Operating income	1,016	1,088	1,108	873	673
Identifiable assets	2,567	1,842	1,590	1,132	915
EQUITY IN INCOME OF MINORITY-OWNED INSURANCE OPERATIONS	--	--	--	--	40
OTHER REALIZED CAPITAL GAINS (LOSSES)	(530)	(452)	(190)	(44)	(1)
REVENUES (E)	67,482	61,766	56,338	50,734	45,612
TOTAL ASSETS	561,229	493,061	426,671	383,685	338,783

(a) Adjusted underwriting profit, a GAAP measure, is statutory underwriting income adjusted primarily for changes in the deferral of acquisition costs. This adjustment is necessary to present the financial statements in accordance with generally accepted accounting principles.

(b) In the fourth quarter of 2002, after completion of its annual review of General Insurance loss and loss adjustment expense reserves, AIG increased its net loss reserves pertaining to accident years 1997 through 2001 by $2.8 billion. Excluding the loss reserve charge, the general insurance combined ratio would have been 94.4.

(c) Includes $769 million in World Trade Center and related losses ("WTC losses"). Excluding WTC losses, the general insurance combined ratio would have been 96.7.

(d) Includes $131 million in WTC losses in 2001.

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

THE FOLLOWING TABLE SHOWS IDENTIFIABLE ASSETS, REVENUES AND INCOME DERIVED FROM OPERATIONS IN THE UNITED STATES AND CANADA AND FROM OPERATIONS IN OTHER COUNTRIES FOR THE YEAR ENDED DECEMBER 31, 2002. (SEE ALSO NOTE 2 OF NOTES TO FINANCIAL STATEMENTS.)

(dollars in millions)

				PERCENT OF TOTAL	
	TOTAL	UNITED STATES AND CANADA	OTHER COUNTRIES	UNITED STATES AND CANADA	OTHER COUNTRIES
GENERAL INSURANCE OPERATIONS:					
Net premiums earned	$ 24,269	$ 17,821	$ 6,448	73.4%	26.6%
Adjusted underwriting profit (loss)*	(1,235)	(1,756)	521	--	--
Net investment income	2,760	2,081	679	75.4	24.6
Realized capital losses	(858)	(510)	(348)	--	--
Operating income (loss)*	667	(185)	852	--	--
Identifiable assets	109,068	80,703	28,365	74.0	26.0
LIFE INSURANCE OPERATIONS:					
Premium income	20,320	4,622	15,698	22.7	77.3
Net investment income	12,274	8,325	3,949	67.8	32.2
Realized capital losses	(1,053)	(984)	(69)	--	--
Operating income	4,929	1,704	3,225	34.6	65.4
Identifiable assets	339,847	234,450	105,397	69.0	31.0
FINANCIAL SERVICES OPERATIONS:					
Commissions, transaction and other fees	6,815	5,889	926	86.4	13.6
Operating income	2,189	1,682	507	76.8	23.2
Identifiable assets	124,617	109,032	15,585	87.5	12.5
RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS:					
Commissions and other fees	3,485	3,041	444	87.3	12.7
Operating income	1,016	893	123	87.9	12.1
Identifiable assets	2,567	1,230	1,337	47.9	52.1
OTHER REALIZED CAPITAL LOSSES	(530)	(506)	(24)	--	--
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	8,142	3,379	4,763	41.5	58.5
REVENUES	67,482	39,779	27,703	58.9	41.1
TOTAL ASSETS	561,229	409,195	152,034	72.9	27.1

* Includes net loss reserve charge of $2.8 billion.

GENERAL INSURANCE OPERATIONS

AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance. One or more of these companies is licensed to write substantially all of these lines in all states of the United States and in approximately 70 foreign countries.

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

AIG's primary domestic division is DBG. DBG's business is derived from brokers in the United States and Canada and is conducted through its general insurance subsidiaries including American Home, National Union, Lexington and certain other general insurance company subsidiaries of AIG. The AIG Risk Management operation provides insurance and risk management programs for large corporate customers. The AIG Risk Finance division designs and implements risk financing alternatives using the insurance and financial services capabilities of AIG. Also included are the operations of AIG Environmental which focuses specifically on providing specialty products to clients with environmental exposures.

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 equipment breakdown, directors and officers liability, difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and omissions coverages. 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.

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

AIG engages in mass marketing of personal lines coverages, primarily private passenger auto and homeowners and personal umbrella coverages, principally through American International Insurance Company and 21st Century.

The business of United Guaranty Corporation (UGC) and its subsidiaries is also included in the domestic operations of AIG. 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. Such 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. UGC had approximately $22 billion of mortgage guarantee risk in-force at December 31, 2002.

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 for their own accounts. The Foreign General group uses various marketing methods to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in over 70 countries in Asia, the Pacific Rim, Europe, Africa, Middle East and Latin America.

During 2002, DBG and the Foreign General insurance group accounted for 55.5 percent and 21.9 percent, respectively, of AIG's net premiums written.

AIG's general insurance company subsidiaries worldwide operate primarily by underwriting and accepting risks for their direct account and securing reinsurance on that portion of the risk in excess of the limit which they wish to retain. This operating policy differs from that of many insurance companies which will underwrite only up to their net retention limit, thereby requiring the broker or agent to secure commitments from other underwriters for the remainder of the gross risk amount.

THE FOLLOWING TABLE SUMMARIZES GENERAL INSURANCE PREMIUMS WRITTEN AND EARNED:

(in millions)

YEARS ENDED DECEMBER 31,	WRITTEN	EARNED
2002		
Gross premiums	$ 37,537	$ 34,381
Ceded premiums	(10,123)	(10,112)
Net premiums	$ 27,414	$ 24,269
2001		
Gross premiums	$ 29,640	$ 28,850
Ceded premiums	(9,539)	(9,485)
Net premiums	$ 20,101	$ 19,365
2000		
Gross premiums	$ 25,050	$ 24,062
Ceded premiums	(7,524)	(6,655)
Net premiums	$ 17,526	$ 17,407

The utilization of reinsurance is closely monitored by an internal reinsurance security committee, consisting of members of AIG's senior management. No single reinsurer is a material reinsurer to AIG nor is AIG's business substantially dependent upon any reinsurance contract. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 5 of Notes to Financial Statements.)

AIG is diversified both in terms of lines of business and geographic locations. Of the general insurance lines of business, workers' compensation was approximately 12 percent of AIG's net premiums written. This line of business is also diversified geographically.

The majority of AIG's general insurance business is in the casualty classes, which tend to involve longer periods of time for the reporting and settling of claims. This may increase the risk and uncertainty with respect to AIG's loss reserve development. (See also the Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development and Management's Discussion and Analysis of Financial Condition and Results of Operations.)

LOSS AND EXPENSE RATIOS OF AIG'S CONSOLIDATED GENERAL INSURANCE OPERATIONS ARE SET FORTH IN THE FOLLOWING TABLE. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.)

(dollars in millions)

YEARS ENDED DECEMBER 31,	NET PREMIUMS WRITTEN	NET PREMIUMS EARNED	RATIO OF LOSSES AND LOSS EXPENSES INCURRED TO NET PREMIUMS EARNED	RATIO OF UNDERWRITING EXPENSES INCURRED TO NET PREMIUMS WRITTEN	COMBINED RATIO	UNDERWRITING MARGIN	INDUSTRY COMBINED RATIO(c)
2002	$27,414	$24,269	85.8	20.2	106.0(a)	(6.0)	109.0
2001	20,101	19,365	79.5	21.2	100.7(b)	(0.7)	115.3
2000	17,526	17,407	75.3	21.4	96.7	3.3	108.6
1999	16,224	15,544	75.5	20.8	96.3	3.7	107.1
1998	14,586	14,098	75.6	20.8	96.4	3.6	104.9

(a) Excluding the net loss reserve charge of $2.8 billion, the general insurance combined ratio would have been 94.4.

(b) Excluding WTC losses, the general insurance combined ratio would have been 96.7.

(c) Source: Best's Aggregates & Averages (Stock insurance companies, after dividends to policyholders): the ratios for 2002 and 2001 were obtained from Fox-Pitt, Kelton Inc. The ratio for 2002 reflects estimated results.

During 2002, of the direct general insurance premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded), 10.2 percent, 7.4 percent and 6.7 percent were written in California, New York and Illinois, respectively. No other state accounted for more than 5 percent of such premiums.

There was no significant adverse effect on AIG's general insurance results of operations from the economic environments in any one state, country or geographic region for the year ended December 31, 2002. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

DISCUSSION AND ANALYSIS OF CONSOLIDATED NET LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT

The reserve for net losses and loss expenses represents the accumulation of estimates for reported losses ("case basis reserves") and provisions for losses incurred but not reported (IBNR), both reduced by applicable reinsurance recoverable. Losses and loss expenses are charged to income as incurred. AIG discounts certain of its loss reserves principally related to workers' compensation lines of business.

Loss reserves established with respect to foreign business are set and monitored in terms of the respective local or functional currency. Therefore, no assumption is included for changes in currency rates. (See also Note 1(v) of Notes to Financial Statements.)

Management reviews the adequacy of established loss reserves through the utilization of a number of analytical reserve development techniques. Through the use of these techniques, management is able to monitor the adequacy of its established reserves and determine appropriate assumptions for inflation. Also, analysis of emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence, allows management to determine any required adjustments. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

The "Analysis of Consolidated Net Losses and Loss Expense Reserve Development Excluding Asbestos and Environmental Net Losses and Loss Expense Reserve Development" table, which follows, presents the development of net losses and loss expense reserves for calendar years 1992 through 2002. The upper half of the table shows the cumulative amounts paid during successive years related to the opening loss reserves. For example, with respect to the net losses and loss expense reserve of $19.19 billion as of December 31, 1995, by the end of 2002 (seven years later) $15.49 billion had actually been paid in settlement of these net loss reserves. In addition, as reflected in the lower section of the table, the original reserve of $19.19 billion was reestimated to be $18.10 billion at December 31, 2002. This decrease from the original estimate would generally be a combination of a number of factors, including reserves being settled for smaller amounts than originally estimated. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claim frequency and severity patterns. The redundancy (deficiency) depicted in the table, for any particular calendar year, shows the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective column heading. For example, the deficiency of $3.90 billion at December 31, 2002 related to December 31, 2001 net losses and loss expense reserves of $25.18 billion represents the cumulative amount by which reserves for 2001 and prior years have developed deficiently during 2002. The deficiency that has emerged in the last year can be attributed principally to a series of excessive jury awards in certain liability or casualty lines of business. Market rates in certain classes of business and expanded policy form coverages, which were prevalent in the marketplace in the accident years 1997 through 2001, contributed to this issue. Corrective pricing and revision of policy forms are taking place. Tort reform is still critically needed in the U.S. although a great deal of effort

has been undertaken in individual states to correct the abuse that has prevailed. The reserve for net losses and loss expenses with respect to Transatlantic and 21st Century are included only in the consolidated net losses and loss expenses commencing with the year ended December 31, 1998. Reserve development for these operations is included only for 1998 and subsequent periods.

ANALYSIS OF CONSOLIDATED NET LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT EXCLUDING ASBESTOS AND ENVIRONMENTAL NET LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT

THE FOLLOWING TABLE EXCLUDES FOR EACH CALENDAR YEAR THE NET LOSS AND LOSS EXPENSE RESERVES AND THE DEVELOPMENT THEREOF WITH RESPECT TO ASBESTOS AND ENVIRONMENTAL CLAIMS. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.)

(in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Reserve for Net Losses and Loss Expenses, Excluding Asbestos and Environmental Losses and Loss Expenses, December 31,	$16,503	$17,249	$18,089	$19,186	$19,664	$20,384	$23,754	$23,709	$24,097	$25,177	$29,653
Paid (Cumulative) as of:											
One Year Later	4,766	5,061	4,700	5,174	5,507	5,576	6,657	7,712	9,069	10,250	
Two Years Later	8,088	8,082	7,891	8,515	8,832	9,305	11,373	13,426	15,804		
Three Years Later	10,157	10,137	10,048	10,673	11,094	12,122	15,031	18,130			
Four Years Later	11,337	11,726	11,683	12,128	12,948	14,172	18,284				
Five Years Later	12,448	12,871	12,734	13,466	14,401	16,025					
Six Years Later	13,274	13,560	13,689	14,601	15,653						
Seven Years Later	13,771	14,285	14,421	15,487							
Eight Years Later	14,310	14,866	15,114								
Nine Years Later	14,768	15,405									
Ten Years Later	15,255										
Net Liability Reestimated as of:											
End of Year	16,503	17,249	18,089	19,186	19,664	20,384	23,754	23,709	24,097	25,177	29,653
One Year Later	16,382	17,019	17,556	18,568	19,118	19,903	23,229	23,345	24,563	29,131	
Two Years Later	16,073	16,813	17,355	18,347	18,910	19,771	22,827	24,111	28,257		
Three Years Later	15,997	16,790	17,293	18,141	18,934	19,428	23,306	26,951			
Four Years Later	16,081	16,960	17,090	18,292	18,670	19,532	24,994				
Five Years Later	16,362	16,969	17,155	18,161	18,568	20,213					
Six Years Later	16,404	17,080	17,169	17,836	18,923						
Seven Years Later	16,582	17,146	16,838	18,101							
Eight Years Later	16,731	16,968	17,052								
Nine Years Later	16,690	17,110									
Ten Years Later	16,804										
Redundancy/(Deficiency)	(301)	139	1,037	1,085	741	171	(1,240)	(3,242)	(4,160)	(3,954)	
Less effect of 21st Century homeowners and earthquake lines in runoff							(117)	(111)	(110)	(56)	
Redundancy/(Deficiency) excluding 21st Century homeowners and earthquake lines							(1,123)	(3,131)	(4,050)	(3,898)	

ANALYSIS OF CONSOLIDATED NET LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT

THE FOLLOWING TABLE INCLUDES FOR EACH CALENDAR YEAR THE NET LOSS AND LOSS EXPENSE RESERVES AND THE DEVELOPMENT THEREOF WITH RESPECT TO ASBESTOS AND ENVIRONMENTAL CLAIMS. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.)

(in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Reserve for Net Losses and Loss Expenses, December 31,	$16,757	$17,557	$18,419	$19,693	$20,407	$21,171	$24,619	$24,600	$24,952	$25,896	$30,350
Paid (Cumulative) as of:											
One Year Later	4,883	5,146	4,775	5,281	5,616	5,716	6,779	7,783	9,263	10,396	
Two Years Later	8,289	8,242	8,073	8,726	9,081	9,559	11,565	13,690	16,144		
Three Years Later	10,433	10,404	10,333	11,024	11,456	12,442	15,416	18,540			
Four Years Later	11,718	12,095	12,107	12,591	13,376	14,684	18,815				
Five Years Later	12,931	13,378	13,270	13,994	15,018	16,679					
Six Years Later	13,894	14,179	14,290	15,317	16,412						
Seven Years Later	14,502	14,968	15,209	16,344							
Eight Years Later	15,105	15,735	16,043								
Nine Years Later	15,749	16,414									
Ten Years Later	16,375										
Net Liability Reestimated as of:											
End of Year	16,757	17,557	18,419	19,693	20,407	21,171	24,619	24,600	24,952	25,896	30,350
One Year Later	16,807	17,434	18,139	19,413	20,009	20,890	24,237	24,265	25,471	29,969	
Two Years Later	16,603	17,479	18,269	19,330	19,999	20,886	23,864	25,082	29,284		
Three Years Later	16,778	17,782	18,344	19,327	20,151	20,572	24,392	28,043			
Four Years Later	17,182	18,090	18,344	19,604	19,916	20,715	26,202				
Five Years Later	17,600	18,300	18,535	19,500	19,851	21,513					
Six Years Later	17,844	18,537	18,575	19,212	20,323						
Seven Years Later	18,148	18,629	18,281	19,592							
Eight Years Later	18,320	18,485	18,608								
Nine Years Later	18,314	18,742									
Ten Years Later	18,542										
Redundancy/(Deficiency)	(1,785)	(1,185)	(189)	101	84	(342)	(1,583)	(3,443)	(4,332)	(4,073)	
Less effect of 21st Century homeowners and earthquake lines in runoff							(117)	(111)	(110)	(56)	
Redundancy/(Deficiency) excluding 21st Century homeowners and earthquake lines							(1,466)	(3,332)	(4,222)	(4,017)	

RECONCILIATION OF NET RESERVES FOR LOSSES AND LOSS EXPENSES

(in millions)	2002	2001	2000
Net reserve for losses and loss expenses at beginning of year	$25,896	$24,952	$24,600
Acquisition (a)	--	--	236
Losses and loss expenses incurred:			
Current year	16,741	14,870	13,356
Prior years (b)	4,073	536	(252)
	20,814	15,406	13,104
Losses and loss expenses paid:			
Current year	5,964	5,199	5,205
Prior years	10,396	9,263	7,783
	16,360	14,462	12,988
Net reserve for losses and loss expenses at end of year (c)	$30,350	$25,896	$24,952

(a) Acquisition includes the opening balances with respect to HSB in 2000.

(b) Does not include the effects of foreign exchange adjustments which are reflected in the "Net Losses and Loss Expense Reserve Development" table.

(c) See also Note 6(a) of Notes to Financial Statements.

For further discussion regarding net reserves for losses and loss expenses, see Management's Discussion and Analysis of Financial Condition and Results of Operations.

The reserve for losses and loss expenses as reported in AIG's Consolidated Balance Sheet at December 31, 2002, differs from the total reserve reported in the Annual Statements filed with state insurance departments and, where appropriate, with foreign regulatory authorities. The differences at December 31, 2002 relate primarily to reserves for certain foreign operations. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

The reserve for gross losses and loss expenses is prior to reinsurance and represents the accumulation for reported losses and IBNR. Management reviews the adequacy of established gross loss reserves in the manner previously described for net loss reserves.

ANALYSIS OF CONSOLIDATED GROSS LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT

THE "ANALYSIS OF CONSOLIDATED GROSS LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT" TABLE, WHICH FOLLOWS, PRESENTS THE DEVELOPMENT OF GROSS LOSSES AND LOSS EXPENSE RESERVES FOR CALENDAR YEARS 1992 THROUGH 2002.

(in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Gross Losses and Loss Expenses, December 31,	$28,157	$30,046	$31,435	$33,047	$33,430	$33,400	$38,310	$38,252	$40,613	$44,792	$51,539
Paid (Cumulative) as of:											
One Year Later	7,281	8,807	7,640	8,392	9,199	9,185	10,344	12,543	12,905	14,934	
Two Years Later	13,006	13,279	13,036	15,496	15,043	14,696	19,155	19,350	24,079		
Three Years Later	16,432	17,311	17,540	18,837	18,721	19,706	24,309	28,699			
Four Years Later	18,550	20,803	20,653	21,811	21,729	22,659	30,301				
Five Years Later	21,322	22,895	22,634	23,463	23,498	27,554					
Six Years Later	22,807	23,779	24,205	24,927	26,649						
Seven Years Later	23,684	25,239	24,882	28,234							
Eight Years Later	25,060	26,314	27,404								
Nine Years Later	26,094	28,221									
Ten Years Later	27,556										
Gross Liability Reestimated as of:											
End of Year	28,157	30,046	31,435	33,047	33,430	33,400	38,310	38,252	40,613	44,792	51,539
One Year Later	28,253	29,866	30,759	32,372	32,777	32,337	37,161	37,998	41,443	49,565	
Two Years Later	27,825	29,537	30,960	32,398	31,719	32,251	37,959	40,454	46,259		
Three Years Later	27,727	30,362	30,825	31,759	31,407	32,810	39,713	43,865			
Four Years Later	28,625	31,020	30,508	31,604	32,388	34,449	41,828				
Five Years Later	29,701	30,881	30,417	32,425	32,979	35,316					
Six Years Later	29,605	30,969	31,128	32,869	33,328						
Seven Years Later	29,929	31,546	31,524	33,227							
Eight Years Later	30,452	31,841	31,875								
Nine Years Later	30,956	32,044									
Ten Years Later	30,968										
Redundancy/(Deficiency)	(2,811)	(1,998)	(440)	(180)	102	(1,916)	(3,518)	(5,613)	(5,646)	(4,773)	
Less effect of 21st Century homeowners and earthquake lines in runoff							(117)	(111)	(110)	(56)	
Redundancy/(Deficiency) excluding 21st Century homeowners and earthquake lines							(3,401)	(5,502)	(5,536)	(4,717)	

LIFE INSURANCE OPERATIONS

AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. One or more of these subsidiaries is licensed to write life insurance in all states in the United States and in over 70 foreign countries. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of fixed and variable annuities, guaranteed investment contracts and pensions. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

Life insurance operations in foreign countries comprised 77.3 percent of life premium income and 65.4 percent of operating income in 2002. AIG operates overseas principally through ALICO, AIA and Nan Shan. ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIG added significantly to its presence in Japan with the acquisition of AIG Star Life Insurance Co., Ltd. in 2001, as a result of the reorganization of Chiyoda Mutual Life Insurance Company. AIA operates primarily in China (including Hong Kong), Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. (See also Note 2 of Notes to Financial Statements.)

AIG's principal domestic life insurance subsidiaries include AIG American General Life, AIG Annuity and SunAmerica Life. These companies utilize multiple distribution channels including brokerage and career and general agents to offer traditional life products as well as financial and

investment products. The domestic life operations comprised 22.7 percent of total life premium income in 2002.

There was no significant adverse effect on AIG's life insurance results of operations from economic environments in any one state, country or geographic region for the year ended December 31, 2002. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

Traditional life insurance products such as whole life and endowment continue to be significant in the overseas companies, especially in Southeast Asia, while a mixture of traditional, accident and health and financial products are sold in Japan.

In addition to the above, AIG also has subsidiary operations in the Philippines, Canada, Mexico, Poland, Switzerland, Puerto Rico, and conducts life insurance business through AIUO subsidiary companies, in Russia, Israel and in certain countries in Central and South America.

The foreign life companies have over 195,000 career agents and sell their products largely to indigenous persons in local currencies. In addition to the agency outlets, these companies also distribute their products through direct marketing channels, such as mass marketing, and through brokers and other distribution outlets such as financial institutions.

THE FOLLOWING TABLES SUMMARIZE THE LIFE INSURANCE OPERATING RESULTS PRESENTED ON A MAJOR PRODUCT BASIS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.)

(in millions)

	2002	2001(a)	2000(a)
GAAP PREMIUMS:			
Domestic:			
Life Insurance	$ 1,626	$ 1,515	$ 1,522
Individual Fixed Annuities (b)	42	437	380
Guaranteed Investment Contracts	28	--	(7)
Home Service	854	876	953
Group Life/Health	967	925	969
Pension and Investment Products (b)	1,105	1,144	665
Accident & Health (c)	--	51	327
Total Domestic	4,622	4,948	4,809
Foreign:			
Life Insurance	12,000	10,771	9,474
Personal Accident	2,491	2,196	1,924
Group Products	1,094	1,050	851
Guaranteed Investment Contracts	113	98	105
Total Foreign	15,698	14,115	12,354
Total GAAP premiums	$ 20,320	$ 19,063	$ 17,163
PREMIUM INCOME, DEPOSITS AND OTHER CONSIDERATIONS (d) (e):			
Domestic:			
Life Insurance (f)	$ 2,411	$ 2,724	$ 2,256
Individual Fixed Annuities	10,328	7,605	5,079
Guaranteed Investment Contracts	9,078	8,242	6,752
Home Service	861	878	953
Group Life/Health	976	930	969
Pension and Investment Products	1,782	3,020	2,368
Accident & Health(c)	--	157	327
Total Domestic	25,436	23,556	18,704
Foreign:			
Life Insurance	13,440	12,066	10,256
Personal Accident	2,497	2,173	1,923
Group Products	1,579	1,660	1,266
Guaranteed Investment Contracts	5,710	4,162	6,070
Total Foreign	23,226	20,061	19,515
Total premium income, deposits and other considerations	$ 48,662	$ 43,617	$ 38,219

(in millions)

	2002	2001(a)	2000(a)
NET INVESTMENT INCOME:			
Domestic:			
Life Insurance	$ 1,417	$ 1,329	$ 1,306
Individual Fixed Annuities	3,229	2,874	2,708
Guaranteed Investment Contracts	2,052	1,836	1.321
Home Service	683	653	669
Group Life/Health	108	105	107
Pension and Investment Products	836	702	662
Accident & Health (c)	--	5	8
Total Domestic	8,325	7,504	6,781
Foreign:			
Life Insurance	3,206	2,848	2,432
Personal Accident	141	128	129
Group Products	255	227	223
Guaranteed Investment Contracts	359	387	406
Intercompany Adjustments	(12)	(10)	(9)
Total Foreign	3,949	3,580	3,181
Total net investment income	$ 12,274	$ 11,084	$ 9,962
OPERATING INCOME BEFORE REALIZED CAPITAL LOSSES:			
Domestic:			
Life Insurance (g)	$ 777	$ 555	$ 614
Individual Fixed Annuities	729	679	611
Guaranteed Investment Contracts	581	445	159
Home Service	382	374	353
Group Life/Health	101	87	69
Pension and Investment Products	118	144	150
Accident & Health (c)	--	4	23
Total Domestic (g)	2,688	2,288	1,979
Foreign:			
Life Insurance	2,411	1,914	1,558
Personal Accident	681	572	531
Group Products	175	127	107
Guaranteed Investment Contracts	39	38	54
Intercompany Adjustments	(12)	(10)	(9)
Total Foreign	3,294	2,641	2,241
Total operating income before realized capital losses	5,982	4,929	4,220
Realized capital losses	(1,053)	(254)	(162)
Total operating income (g)	$ 4,929	$ 4,675	$ 4,058
LIFE INSURANCE IN-FORCE:			
Domestic	$ 577,686	$ 517,067	$ 477,576
Foreign (h)	746,765	711,434	494,316
Total	$ 1,324,451	$ 1,228,501	$ 971,892

(a) Restated to conform to the 2002 presentation.

(b) 2001 and 2000 GAAP premiums included certain annuity products now reported in Pension and Investment Products.

(c) Beginning 2001, certain Accident & Health operations are part of DBG.

(d) Represents a non-GAAP measurement used by AIG to help manage its life insurance operation, and may not be comparable to similarly captioned measurements used by other life insurance companies.

(e) Premium income, deposits and other considerations represent aggregate business activity during the respective periods.

(f) The decline in life premiums is due primarily to lower private placement and corporate life market sales.

(g) 2001 included WTC losses of $131 million.

(h) Increase in 2001 reflects acquisition of AIG Star Life Insurance Co., Ltd. in April 2001.

INSURANCE INVESTMENT OPERATIONS

A significant portion of AIG's general and life operating revenues are derived from AIG's insurance investment operations.

(See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 2 and 8 of Notes to Financial Statements.)

THE FOLLOWING TABLES SUMMARIZE THE COMPOSITION OF AIG'S INSURANCE INVESTED ASSETS BY INSURANCE SEGMENT, INCLUDING INVESTMENT INCOME DUE AND ACCRUED AND REAL ESTATE, AT DECEMBER 31, 2002 AND 2001:

(dollars in millions)

DECEMBER 31, 2002	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	PERCENT DISTRIBUTION FOREIGN
Fixed maturities, at market value (a)	$ 35,990	$206,003	$241,993	76.9%	69.1%	30.9%
Equity securities, at market value (b)	3,928	2,931	6,859	2.2	53.4	46.6
Mortgage loans on real estate, policy and collateral loans	35	18,901	18,936	6.0	68.8	31.2
Short-term investments, including time deposits, and cash	1,833	5,048	6,881	2.2	42.5	57.5
Real estate	488	2,367	2,855	0.9	24.8	75.2
Investment income due and accrued	729	3,489	4,218	1.4	64.2	35.8
Securities lending collateral	7,249	16,445	23,694	7.5	75.8	24.2
Other invested assets	5,226	3,954	9,180	2.9	82.1	17.9
Total	$ 55,478	$259,138	$314,616	100.0%	68.6%	31.4%

(a) Includes $981 million of bond trading securities, at market value.

(b) Includes $1.58 billion of non-redeemable preferred stocks, at market value.

(dollars in millions)

December 31, 2001	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution Foreign
Fixed maturities, at market value (a)	$ 29,602	$169,750	$199,352	77.6%	68.8%	31.2%
Equity securities, at market value (b)	4,568	3,139	7,707	3.0	53.9	46.1
Mortgage loans on real estate, policy and collateral loans	58	17,975	18,033	7.0	68.0	32.0
Short-term investments, including time deposits, and cash	1,620	5,287	6,907	2.7	49.3	50.7
Real estate	410	2,106	2,516	1.0	21.5	78.5
Investment income due and accrued	573	3,001	3,574	1.4	63.9	36.1
Securities lending collateral	992	9,581	10,573	4.1	74.9	25.1
Other invested assets	5,336	2,937	8,273	3.2	82.2	17.8
Total	$ 43,159	$213,776	$256,935	100.0%	68.0%	32.0%

(a) Includes $842 million of bond trading securities, at market value.

(b) Includes $1.72 billion of non-redeemable preferred stocks, at market value.

THE FOLLOWING TABLE SUMMARIZES THE INVESTMENT RESULTS OF THE GENERAL INSURANCE OPERATIONS. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND NOTE 8 OF NOTES TO FINANCIAL STATEMENTS.)

(dollars in millions)

	ANNUAL AVERAGE CASH AND INVESTED ASSETS						
YEARS ENDED DECEMBER 31,	CASH (INCLUDING SHORT-TERM INVESTMENTS)	INVESTED ASSETS(a)	TOTAL	NET INVESTMENT INCOME(b)	RATE OF RETURN ON INVESTED ASSETS		REALIZED CAPITAL GAINS (LOSSES)
2002	$ 1,726	$47,592	$49,318	$ 2,760	5.6%(c)	5.8%(d)	$ (858)
2001	1,533	41,492	43,025	2,893	6.7 (c)	7.0 (d)	(130)
2000	1,212	39,801	41,013	2,701	6.6 (c)	6.8 (d)	38
1999	925	38,084	39,009	2,517	6.5 (c)	6.6 (d)	295
1998	745	34,619	35,364	2,192	6.2 (c)	6.3 (d)	205

(a) Including investment income due and accrued and real estate.

(b) Net investment income is after deduction of investment expenses and excludes realized capital gains (losses).

(c) Net investment income divided by the annual average sum of cash and invested assets.

(d) Net investment income divided by the annual average invested assets.

THE FOLLOWING TABLE SUMMARIZES THE INVESTMENT RESULTS OF THE LIFE INSURANCE OPERATIONS. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND NOTE 8 OF NOTES TO FINANCIAL STATEMENTS.)

(dollars in millions)

	ANNUAL AVERAGE CASH AND INVESTED ASSETS						
YEARS ENDED DECEMBER 31,	CASH (INCLUDING SHORT-TERM INVESTMENTS)	INVESTED ASSETS(a)	TOTAL	NET INVESTMENT INCOME(b)	RATE OF RETURN ON INVESTED ASSETS		REALIZED CAPITAL LOSSES
2002	$ 5,167	$231,290	$236,457	$ 12,274	5.2%(c)	5.3%(d)	$ (1,053)
2001	5,054	186,103	191,157	11,084	5.8 (c)	6.0 (d)	(254)
2000	5,670	155,477	161,147	9,962	6.2 (c)	6.4 (d)	(162)
1999	6,590	141,771	148,361	8,932	6.0 (c)	6.3 (d)	(148)
1998	5,251	124,764	130,015	8,065	6.2 (c)	6.5 (d)	(74)

(a) Including investment income due and accrued, real estate.

(b) Net investment income is after deduction of investment expenses and excludes realized capital gains (losses).

(c) Net investment income divided by the annual average sum of cash and invested assets.

(d) Net investment income divided by the annual average invested assets.

AIG's worldwide insurance investment policy places primary emphasis on investments in high quality, fixed income securities in all of its portfolios and, to a lesser extent, investments in marketable common stocks in order to preserve policyholders' surplus and generate net investment income. The ability to implement this policy is somewhat limited in certain territories as there may be a lack of qualified long term investments or investment restrictions may be imposed by the local regulatory authorities. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

FINANCIAL SERVICES OPERATIONS

AIG's financial services subsidiaries engage in diversified financial products and services including aircraft leasing, consumer and insurance premium financing, capital markets structuring and market-making activities.

ILFC engages primarily in the acquisition of commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. Also, ILFC provides, for a fee, fleet management services to certain third-party operators. (See also Note 2 of Notes to Financial Statements.)

AIGFP engages in a wide variety of financial transactions, including long-dated interest rate, currency, equity and credit derivatives and structured borrowing through notes, bonds and guaranteed investment agreements. AIGFP does not engage in trading activities with respect to commodity contracts. (See also Note 2 of Notes to Financial Statements.)

AIG's Consumer Finance operations include AGF as well as AIG Consumer Finance Group, Inc. (AIGCFG). (See also Note 2 of Notes to Financial Statements.)

AGF provides a wide variety of consumer finance products, including real estate mortgages, consumer loans, retail sales finance and credit related insurance to customers in the United States.

AIGCFG, through its subsidiaries, is engaged in developing a multi-product consumer finance business with an emphasis on emerging markets.

Together ILFC, AIGFP and AIG's Consumer Finance operations comprise 97.2 percent of the commissions, transaction and other fees of AIG's consolidated financial services operations.

THE FOLLOWING TABLE IS A SUMMARY OF THE REVENUES AND OPERATING INCOME OF AIG'S PRINCIPAL FINANCIAL SERVICES OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND NOTE 1 OF NOTES TO FINANCIAL STATEMENTS.)

(in millions)

	2002	2001	2000
REVENUES:			
ILFC (a)	$2,845	$2,613	$2,441
AIGFP (b)	1,306	1,178	1,056
Consumer Finance (c)	2,473	2,560	2,325
OPERATING INCOME:			
ILFC	$ 801	$ 749	$ 654
AIGFP	808	758	648
Consumer Finance	549	505	386

(a) Revenues were primarily from aircraft lease rentals.

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

(c) Revenues were primarily finance charges.

Imperial A.I. Credit Companies also contribute to financial services income. This operation engages principally in insurance premium financing. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 9 and 12 of Notes to Financial Statements.)

RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS

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

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

THE FOLLOWING TABLE IS A SUMMARY OF THE REVENUES AND OPERATING INCOME OF AIG'S PRINCIPAL RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND NOTE 1 OF NOTES TO FINANCIAL STATEMENTS.)

(in millions)	2002	2001	2000
REVENUES:			
AIG VALIC	$2,133	$2,110	$2,230
AIG SunAmerica	563	652	750
Other*	789	950	485
Total	$3,485	$3,712	$3,465
OPERATING INCOME:			
AIG VALIC	$ 730	$ 630	$ 692
AIG SunAmerica	32	185	326
Other*	254	273	90
Total	$1,016	$1,088	$1,108

* Includes AIG Global Investment Group, John McStay Investment Counsel, L.P. and certain overseas variable annuity operations.

THE FOLLOWING TABLE IS A SUMMARY OF THE COMPOSITION OF AIG'S FINANCIAL SERVICES INVESTED ASSETS AND LIABILITIES AT DECEMBER 31, 2002 AND 2001. (SEE ALSO MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND NOTE 1 OF NOTES TO FINANCIAL STATEMENTS.)

(in millions)	2002	2001
Financial services invested assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation	$ 26,867	$ 22,710
Finance receivables, net of allowance	15,857	13,955
Unrealized gain on interest rate and currency swaps, options and forward transactions	15,376	11,493
Securities available for sale, at market value	16,687	17,801
Trading securities, at market value	4,146	5,733
Securities purchased under agreements to resell, at contract value	25,560	21,638
Trading assets	4,786	6,234
Spot commodities, at market value	489	352
Other, including short-term investments	5,110	4,379
Total	$114,878	$104,295
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements*	$ 14,850	$ 16,392
Securities sold under agreements to repurchase, at contract value	9,162	11,818
Trading liabilities	3,825	4,372
Securities and spot commodities sold but not yet purchased, at market value	11,765	8,331
Unrealized loss on interest rate and currency swaps, options and forward transactions	11,265	8,813
Trust deposits and deposits due to banks and other depositors	2,987	2,290
Commercial paper*	7,467	8,523
Notes, bonds, loans and mortgages payable*	43,233	33,676
Total	$104,554	$ 94,215

* See also Note 9 of Notes to Financial Statements.

OTHER OPERATIONS

Certain other AIG subsidiaries provide insurance-related services such as adjusting claims and marketing specialized products. AIG also has several other subsidiaries which engage in various businesses. For example, American International Technology Enterprises, Inc. provides information technology and processing services to businesses worldwide. Mt. Mansfield Company, Inc. owns and operates the ski slopes, lifts, school and an inn located at Stowe, Vermont.

ADDITIONAL INVESTMENTS

AIG holds a 24.3 percent interest in IPC Holdings, Ltd., a reinsurance holding company, a 23.4 percent interest in Allied World Assurance Holdings, Ltd., a property-casualty insurance holding company and a 22.1 percent interest in The Fuji Fire and Marine Insurance Co., Ltd., a general insurance company. (See also Note 1(q) of Notes to Financial Statements.)

LOCATIONS OF CERTAIN ASSETS

As of December 31, 2002, approximately 27 percent of the consolidated assets of AIG were located in foreign countries (other than Canada), including $1.44 billion of cash and securities on deposit with foreign regulatory authorities. Foreign operations and assets held abroad may be adversely affected by political developments in foreign countries, including such possibilities as tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of such assets. Certain of the countries in which AIG's business is conducted have currency restrictions which generally cause a delay in a company's ability to repatriate assets and profits. (See also Notes 1 and 2 of Notes to Financial Statements.)

INSURANCE REGULATION AND COMPETITION

Certain states require registration and periodic reporting by insurance companies which are licensed in such states and are controlled by other corporations. Applicable legislation typically requires periodic disclosure concerning the corporation which controls the registered insurer and the other companies in the holding company system and prior approval of intercorporate transfers of assets (including in some instances payment of dividends by the insurance subsidiary) within the holding company system. AIG's subsidiaries are registered under such legislation in those states which have such requirements. (See also Note 11 of Notes to Financial Statements.)

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to approval of policy forms and rates, the standards of solvency that must be met and maintained, including risk based capital measurements, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks which may be insured under a single policy, deposits of securities for the benefit of policyholders, methods of accounting, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, and reserves for unearned premiums, losses and other purposes. In general, such regulation is for the protection of policyholders rather than security holders. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

Risk Based Capital (RBC) is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Thus, inadequately capitalized general and life insurance companies may be identified.

The RBC formula develops a risk adjusted target level of adjusted statutory capital by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to actually placing the insurer under regulatory control.

The statutory surplus of each of AIG's domestic general and life insurance subsidiaries exceeded their RBC standards as of December 31, 2002.

To the extent that any of AIG's insurance entities would fall below prescribed levels of surplus, it would be AIG's intention to infuse necessary capital to support that entity.

Privacy provisions of the Gramm-Leach-Bliley Act became fully effective in 2001. These provisions established consumer protections regarding the security and confidentiality of nonpublic personal information and require full disclosure of the privacy policies of financial institutions to their consumer customers. There is also legislation pending in the United States Congress and various states designed to provide additional privacy protections to consumer customers of financial institutions. These statutes and similar legislation and regulations in the United States or other jurisdictions could impact AIG's ability to market its products or otherwise limit the nature or scope of AIG's insurance and financial services operations.

A substantial portion of AIG's general insurance business and a majority of its life insurance business is carried on in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification or revocation by such authorities, and AIU or other AIG subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate. In the past, AIU has been allowed to modify its operations to conform with new licensing requirements in most jurisdictions.

In addition to licensing requirements, AIG's foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, amount and type of security deposits, amount and type of reserves, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the state, to which admitted insurers are obligated to cede a portion of their business on terms which do not always allow foreign insurers, including AIG, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

The insurance industry is highly competitive. Within the United States, AIG's general insurance subsidiaries compete with approximately 3,000 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. AIG's life insurance companies compete in the United States with approximately 1,800 life insurance companies and other participants in related financial service fields. Overseas, AIG subsidiaries compete for business with foreign insurance operations of the larger U.S. insurers and local companies in particular areas in which they are active.

AIG's financial services subsidiaries operate in a highly competitive environment, both domestically and overseas. Principal sources of competition are banks, investment banks and other non-bank financial institutions. With the acquisition of AGC, the focus of AIG's financial services operations became more consumer-oriented, thereby increasing the risks of regulatory supervision and intervention.

ITEM 2. PROPERTIES

AIG and its subsidiaries operate from approximately 2,200 offices in the United States, 10 offices in Canada and numerous offices in approximately 100 foreign countries. The offices in Springfield, Illinois; Amarillo, Ft. Worth and Houston, Texas; Baton Rouge, Louisiana; Wilmington, Delaware; Hato Rey and Isabella, Puerto Rico; Tampa, Florida; Livingston, New Jersey; Evansville, Indiana; Nashville, Tennessee; 70 Pine Street, 72 Wall Street and 175 Water Street in New York City; and offices in approximately 30 foreign countries including Bermuda, Chile, Hong Kong, the Philippines, Japan, England, Singapore, Switzerland, Taiwan and Thailand are located in buildings owned by AIG and its subsidiaries. The remainder of the office space utilized by AIG subsidiaries is leased.

ITEM 3. LEGAL PROCEEDINGS

AIG and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. AIG does not believe that such litigation will have a material adverse effect on its financial condition, future operating results or liquidity. (See also the Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development and Management's Discussion and Analysis of Financial Condition and Results of Operations.)

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 management believes the allegations of the complaint are without merit. AIG's Board of Directors has appointed a special committee of independent directors to review the complaint and respond to the lawsuit.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the fourth quarter of 2002.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information concerning the directors and executive officers of AIG. All directors are elected at the annual meeting of shareholders. All officers serve at the pleasure of the Board of Directors, but subject to the foregoing, are elected for terms of one year expiring in May of each year.

Except as hereinafter noted, each of the directors who is also an executive officer of AIG and each of the other executive officers has, for more than five years, occupied an executive position with AIG or companies that are now its subsidiaries. There are no other arrangements or understandings between any director or officer and any other person pursuant to which the director or officer was elected to such position. Prior to joining AIG in 1998, Mr. Patrikis was First Vice President at the Federal Reserve Bank of New York, previously having served as Executive Vice President and General Counsel. Prior to joining AIG in 2001, Mr. Rautenberg was Vice President and General Manager, Corporate Communications at Canon, U.S.A. from September 2000 to June, 2001 and for five years prior to that he was the senior corporate communications executive at Reliance Group Holdings. Prior to joining AIG in September 2002, Mr. Bensinger was Executive Vice President and Chief Financial Officer of Combined Specialty Group, Inc. (a division of Aon Corporation) commencing in March 2002, and served as Executive Vice President of Trenwick Group, Ltd. from October 1999 through December 2001 and as President of Chartwell Re Corp. from March 1993 until October 1999.

NAME	TITLE	AGE	SERVED AS DIRECTOR OR OFFICER SINCE
M. Bernard Aidinoff*	Director	74	1984
Eli Broad	Director	69	1999
Pei-yuan Chia	Director	64	1996
Marshall A. Cohen	Director	68	1992
Barber B. Conable, Jr.	Director	80	1991
Martin S. Feldstein	Director	63	1987
Ellen V. Futter	Director	53	1999
M. R. Greenberg*	Director, Chairman and Chief Executive Officer	77	1967
Carla A. Hills*	Director	69	1993
Frank J. Hoenemeyer*	Director	83	1985
Richard C. Holbrooke	Director	61	2001
Edward E. Matthews*	Director and Senior Advisor	71	1973
Howard I. Smith	Director, Vice Chairman, Chief Financial Officer and Chief Administrative Officer	58	1984
Martin J. Sullivan	Director, Vice Chairman and Co-Chief Operating Officer	48	1997
Thomas R. Tizzio*	Director and Senior Vice Chairman-General Insurance	65	1982
Edmund S. W. Tse	Director, Senior Vice Chairman and Co-Chief Operating Officer	65	1991
Jay S. Wintrob	Director and Executive Vice President-Retirement Savings	46	1999
Frank G. Wisner	Director and Vice Chairman-External Affairs	64	1997
Frank G. Zarb*	Director	67	2001
John A. Graf	Executive Vice President-Retirement Savings	43	2002
Donald P. Kanak	Executive Vice President and President of AIG Companies in Japan and Korea	50	1998
Rodney O. Martin, Jr.	Executive Vice President-Life Insurance	50	2002
Kristian P. Moor	Executive Vice President-Domestic General Insurance	43	1998
Win J. Neuger	Executive Vice President and Chief Investment Officer	53	1995
R. Kendall Nottingham	Executive Vice President-Life Insurance	64	1998
Robert M. Sandler	Executive Vice President, Senior Casualty Actuary and Senior Claims Officer	60	1980
William N. Dooley	Senior Vice President-Financial Services	50	1992
Lawrence W. English	Senior Vice President-Administration	61	1985
Axel I. Freudmann	Senior Vice President-Human Resources	56	1986
Ernest T. Patrikis	Senior Vice President and General Counsel	59	1998
Richard W. Scott	Senior Vice President-Investments	49	2002
Steven J. Bensinger	Vice President and Treasurer	48	2002
Michael J. Castelli	Vice President and Comptroller	47	1998
Keith L. Duckett	Vice President and Director of Internal Audit	42	2001
Peter K. Lathrop	Vice President and Director of Taxes	60	2001
Robert E. Lewis	Vice President and Chief Credit Officer	52	1993
Charles M. Lucas	Vice President and Director of Market Risk Management	64	1996
Steven A. Rautenberg	Vice President-Communications	53	2001
Brian T. Schreiber	Vice President-Strategic Planning	37	2002
Kathleen E. Shannon	Vice President and Secretary	53	1986

* Member of Executive Committee.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

(A) THE TABLE BELOW SHOWS THE HIGH AND LOW CLOSING SALES PRICES PER SHARE OF AIG'S COMMON STOCK ON THE NEW YORK STOCK EXCHANGE COMPOSITE TAPE, FOR EACH QUARTER OF 2002 AND 2001.

	2002		2001	
	HIGH	LOW	High	Low
First Quarter	79.61	70.15	96.88	75.12
Second Quarter	75.26	62.84	86.51	76.18
Third Quarter	67.91	51.10	87.06	67.05
Fourth Quarter	67.89	52.45	86.01	76.74

(b) In 2002, AIG paid a quarterly dividend of 4.2 cents in March and June and 4.7 cents in September and December for a total cash payment of 17.8 cents per share of common stock. In 2001, AIG paid a quarterly dividend of 3.7 cents in March and June and 4.2 cents in September and December for a total cash payment of 15.8 cents per share of common stock. Subject to the dividend preference of any of AIG's serial preferred stock which may be outstanding, the holders of shares of common stock are entitled to receive such dividends as may be declared by the Board of Directors from funds legally available therefor.

See Note 11(a) of Notes to Financial Statements for a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries.

(c) The approximate number of holders of common stock as of January 31, 2003, based upon the number of record holders, was 60,000.

(d) Information relating to compensation plans under which equity securities of AIG are authorized for issuance is set forth under "Equity Compensation Plan Information" on page 12 of the Proxy Statement for AIG's 2003

Annual Meeting of Shareholders to be held on May 14, 2003 and all such
information is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES SELECTED CONSOLIDATED FINANCIAL DATA

THE FOLLOWING SELECTED CONSOLIDATED FINANCIAL DATA, WHICH HAS BEEN RESTATED TO GIVE RETROACTIVE EFFECT TO THE ACQUISITIONS OF AGC AND SUNAMERICA INC. ON A POOLING OF INTERESTS BASIS, IS PRESENTED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. THIS DATA SHOULD BE READ IN CONJUNCTION WITH THE SUPPLEMENTAL FINANCIAL STATEMENTS AND ACCOMPANYING NOTES INCLUDED ELSEWHERE HEREIN.

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	2002	2001	2000	1999	1998
Revenues (a):					
Premiums and other considerations	$ 44,589	$ 38,428	$ 34,570	$ 31,020	$ 27,817
Net investment income	15,034	13,977	12,663	11,449	10,257
Realized capital gains (losses)	(2,441)	(836)	(314)	103	130
Other revenues	10,300	10,197	9,419	8,162	7,408
Total revenues	67,482	61,766	56,338	50,734	45,612
Benefits and expenses					
Incurred policy losses and benefits	41,927	35,054	30,864	27,495	24,676
Insurance acquisition and other operating expenses	17,413	16,556	15,136	13,840	13,353
Acquisition, restructuring and related charges	--	2,017	315	--	--
Total benefits and expenses	59,340	53,627	46,315	41,335	38,029
Income before income taxes, minority interest and cumulative effect of accounting changes (b)	8,142	8,139	10,023	9,399	7,583
Income taxes	2,328	2,339	2,971	2,833	2,190
Income before minority interest and cumulative effect of accounting changes	5,814	5,800	7,052	6,566	5,393
Minority interest	(295)	(301)	(413)	(380)	(347)
Income before cumulative effect of accounting changes	5,519	5,499	6,639	6,186	5,046
Cumulative effect of accounting changes, net of tax	--	(136)	--	--	--
Net income	5,519	5,363	6,639	6,186	5,046
Earnings per common share (c):					
Basic					
Income before cumulative effect of accounting changes	2.11	2.10	2.55	2.37	1.96
Cumulative effect of accounting changes	--	(0.05)	--	--	--
Net income	2.11	2.05	2.55	2.37	1.96
Diluted					
Income before cumulative effect of accounting changes	2.10	2.07	2.52	2.34	1.92
Cumulative effect of accounting changes	--	(0.05)	--	--	--
Net income	2.10	2.02	2.52	2.34	1.92
Cash dividends per common share (d)	.18	.16	.14	.13	.11
Total assets	561,229	493,061	426,671	383,685	338,783
Long-term debt (e)	49,416	46,395	38,069	34,583	33,655
Capital funds (shareholders' equity)	59,103	52,150	47,439	39,641	38,909

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

(b) Includes net loss reserve charge of $2.8 billion in 2002 and WTC losses of $900 million in 2001.

(c) Per share amounts for all periods presented have been retroactively adjusted to reflect all stock dividends and splits and reflect the adoption of the Statement of Financial Accounting Standards No. 128 "Earnings per Share."

(d) Cash dividends have not been restated to reflect dividends paid by SunAmerica Inc., the Maryland corporation which was merged into AIG on January 1, 1999, nor AGC which was acquired by AIG on August 29, 2001.

(e) Including commercial paper and excluding that portion of long-term debt maturing in less than one year. (See also Note 9 of Notes to Financial Statements.)

Set forth below are reconciliations of each "non-GAAP financial measure" used in this Annual Report on Form 10-K to its most equivalent measure presented on a GAAP basis. For an explanation of why AIG management considers these "non-GAAP measures" useful, see Executive Summary in Management's Discussion and Analysis of Financial Condition and Results of Operations.

GENERAL INSURANCE REVENUES:

(in millions)	2002	2001	2000
Net premiums earned	$ 24,269	$ 19,365	$ 17,407
Net investment income	2,760	2,893	2,701
Realized capital gains (losses)	(858)	(130)	38
As adjusted - Management reporting basis	$ 26,171	$ 22,128	$ 20,146

GENERAL INSURANCE OPERATING INCOME AS REPORTED:

(in millions)	2002	2001	2000
Net premiums written	$ 27,414	$ 20,101	$ 17,526
Change in unearned premium reserve	(3,145)	(736)	(119)
Net premiums earned	24,269	19,365	17,407
Losses incurred	18,449	13,228	11,379
Loss expenses incurred	2,365	2,178	1,725
Underwriting expenses	4,690	3,871	3,518
Adjusted underwriting profit (loss)	(1,235)	88	785
Net investment income	2,760	2,893	2,701
Realized capital gains (losses)	(858)	(130)	38
Operating income	$ 667	$ 2,851	$ 3,524

GENERAL INSURANCE OPERATING INCOME AS ADJUSTED:

(in millions)	2002	2001	2000
As reported	$ 667	$ 2,851	$ 3,524
Loss reserve charge	2,800	--	--
WTC losses	--	769	--
Realized capital (gains) losses	858	130	(38)
As adjusted - Management reporting basis	$ 4,325	$ 3,750	$ 3,486

LIFE PREMIUM INCOME:

(in millions)	2002	2001	2000
As reported	$20,320	$19,063	$17,163
Deposits and considerations not deemed to be GAAP revenue	28,342	24,554	21,056
Premium income, deposits and other considerations	$48,662	$43,617	$38,219

LIFE INSURANCE REVENUES:

(in millions)	2002	2001	2000
Premium income	$ 20,320	$ 19,063	$ 17,163

Net investment income	12,274	11,084	9,962
Realized capital gains (losses)	(1,053)	(254)	(162)
As adjusted - Management reporting basis	$ 31,541	$ 29,893	$ 26,963

LIFE INSURANCE OPERATING INCOME:

(in millions)	2002	2001	2000
As reported	$4,929	$4,675	$4,058
WTC losses	--	131	--
Realized capital losses	1,053	254	162
As adjusted - Management reporting basis	$5,982	$5,060	$4,220

INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES:

(in millions)	2002	2001	2000
As reported	$ 8,142	$ 8,139	$10,023
Loss reserve charge	2,800	--	--
WTC losses	--	900	--
Realized capital losses	2,441	836	314
Acquisition, restructuring and related charges	--	2,017	315
As adjusted - Management reporting basis	$13,383	$11,892	$10,652

NET INCOME:

(in millions)	2002	2001	2000
As reported	$ 5,519	$ 5,363	$ 6,639
Loss reserve charge	1,794	--	--
WTC losses	--	533	--
Realized capital losses	1,596	542	214
Acquisition, restructuring and related charges	--	1,385	207
Cumulative effect of accounting changes	--	136	--
As adjusted - Management reporting basis	$ 8,909	$ 7,959	$ 7,060

INDEX TO FINANCIAL INFORMATION

American International Group, Inc. and Subsidiaries

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 Annual 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 of AIG's control. These statements may address, among other things, AIG's strategy for growth, product development, regulatory approvals, market position, financial results and reserves. It is possible that AIG's actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Important factors that could cause AIG's actual results to differ, possibly materially, from those in the specific forward-looking statements are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. AIG is not under any obligation to (and expressly disclaims any such obligations to) update or alter any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE SUMMARY

AIG's operations are conducted principally through four business segments: general insurance, life insurance, financial services and retirement savings & asset management. Within each of these business segments are various operating groups generally formed based upon products or services which may be offered in different geographic locations.

[FLOWCHART]

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, as well as most transparent. Operating income is shown exclusive of realized capital gains (losses) because the determination to realize capital gains or losses is generally independent of the insurance underwriting process. Operating income and the related performance rates are also shown exclusive of one or more of the 2002 reserve charge discussed under "Loss Reserve Charge" herein, 2001 acquisition, restructuring and related charges, and 2001 World Trade Center and related losses (WTC losses) because AIG believes that these items are sufficiently unusual that they do not reflect the underlying basic performance of the business. Net income is presented exclusive of these items as well as the cumulative effect of accounting changes for the same reason. Premium income, gross premiums written, 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. A reconciliation of these measurements to the most equivalent measurements presented in accordance with Generally Accepted Accounting Principles (GAAP) is presented on page 20.

CONSOLIDATED RESULTS

AIG's revenues in 2002 increased 9.3 percent to $67.5 billion when compared to $61.8 billion in 2001. Growth in revenues was primarily attributable to the growth in net premiums earned from the general insurance operations. This growth was negatively impacted by realized capital losses incurred. The following tables reconcile results reported on a GAAP basis to the presentation AIG management believes is most meaningful.

INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES:

(in millions)

	2002	2001	2000
As reported	$ 8,142	$ 8,139	$10,023
Loss reserve charge	2,800	--	--
WTC losses	--	900	--
Realized capital losses	2,441	836	314
Acquisition, restructuring and related charges	--	2,017	315
As adjusted -- Management reporting basis	$13,383	$11,892	$10,652

NET INCOME:
(in millions)

	2002	2001	2000
As reported	$ 5,519	$ 5,363	$ 6,639
Loss reserve charge	1,794	--	--
WTC losses	--	533	--
Realized capital losses	1,596	542	214
Acquisition, restructuring and related charges	--	1,385	207
Cumulative effect of accounting changes	--	136	--
As adjusted -- Management reporting basis	$ 8,909	$ 7,959	$ 7,060

AIG's income before income taxes, minority interest and cumulative effect of accounting changes increased modestly in 2002 when compared to 2001. Factors influencing the growth were not only the increase in realized capital losses but also the impact of the $2.8 billion loss reserve charge in 2002. (See discussion under "Loss Reserve Charge" herein.) If the realized capital losses and such loss reserve charge were excluded from 2002 income and $836 million in realized capital losses, $900 million in WTC losses and $2.02 billion of acquisition, restructuring and related charges were excluded in 2001, AIG's growth in income before taxes, minority interest and cumulative effect of accounting changes would be 12.5 percent. AIG believes that the growth rates discussed above are more representative of the overall growth of its operations than the rates determined including the impact of events AIG views as unusual and unlikely to recur.

AIG's net income in 2002 increased 2.9 percent to $5.52 billion when compared to $5.36 billion in 2001. Excluding net of tax, realized capital gains (losses), the $1.8 billion loss reserve charge in 2002, the $1.38 billion of acquisition, restructuring and related charges, $533 million in WTC losses, and $136 million cumulative effect of accounting changes incurred in 2001, AIG's net income in 2002 increased 11.9 percent.

THE FOLLOWING TABLE SUMMARIZES THE OPERATIONS OF EACH PRINCIPAL SEGMENT FOR 2002, 2001 AND 2000. (SEE ALSO NOTE 2 OF NOTES TO FINANCIAL STATEMENTS.) :

(in millions)

	2002	2001	2000
Revenues:			
General insurance(a)	$ 26,171	$ 22,128	$ 20,146
Life insurance(b)	31,541	29,893	26,963
Financial services(c)	6,815	6,485	5,954
Retirement savings & asset management(d)	3,485	3,712	3,465
Other	(530)	(452)	(190)
Total	$ 67,482	$ 61,766	$ 56,338
Operating income:			
General insurance	$ 667	$ 2,851	$ 3,524
Life insurance	4,929	4,675	4,058
Financial services	2,189	1,991	1,666
Retirement savings & asset management	1,016	1,088	1,108
Other	(659)	(2,466)	(333)
Total	$ 8,142	$ 8,139	$ 10,023

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

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

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

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

GENERAL INSURANCE

General insurance operating income decreased 76.6 percent in 2002 compared to 2001. The primary reasons for this decline were the loss reserve charge of $2.8 billion and an increase in realized capital losses of over $700 million. Excluding realized capital gains (losses), the loss reserve charge in 2002 and WTC losses of $769 million, including $200 million from Transatlantic, in 2001, general insurance operating income increased 15.4 percent.

LIFE INSURANCE

Life insurance operating income increased 5.4 percent in 2002 compared to 2001, impacted by an increase in realized capital losses of nearly $800 million. Excluding realized capital gains (losses) and WTC losses of $131 million in 2001, life insurance operating income increased 18.2 percent, reflecting operating income growth in each of AIG's principal life insurance businesses.

FINANCIAL SERVICES

Financial services operating income increased 9.9 percent in 2002 compared to 2001, reflecting the continued growth of each of its principal operations.

RETIREMENT SAVINGS & ASSET MANAGEMENT

Retirement savings & asset management operating income decreased 6.6 percent in 2002 when compared to 2001. Results in the variable annuity business continue to be impacted by weak equity markets in the United States and around the world.

REALIZED CAPITAL LOSSES

During 2002, AIG incurred net realized capital losses of $2.44 billion, including $356 million from WorldCom Inc. securities.

CAPITAL RESOURCES

At December 31, 2002, AIG had total capital funds of $59.10 billion and total borrowings of $71.89 billion. At that date, $64.98 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

During 2002, AIG repurchased in the open market 10,858,000 shares of its common stock.

LIQUIDITY

At December 31, 2002, consolidated invested assets were $432.36 billion including $8.16 billion in cash and short-term investments. Consolidated net

cash provided from operating activities in 2002 amounted to $18.69 billion. AIG believes that its liquid assets, cash provided by operations and access to the capital markets will enable it to meet any forseeable cash requirements.

OUTLOOK

Premium rates in the General Insurance business are continuing to strengthen both domestically and in key international markets, along with policy restrictions and exclusions. AIG expects that such growth will continue through 2003. Such increases in premium growth will have a strong positive impact on cash flow available for investment. Thus, General Insurance's net investment income is expected to rise in future quarters even in the current interest rate environment.

In the Life Insurance segment, AIG expects continued growth with respect to its domestic individual fixed annuity operation, while in overseas markets, AIG's life insurance operations are expected to continue double digit growth. AIG continues to expand its operations in China, becoming the first foreign insurance organization to have wholly owned life insurance operations in Beijing, Suzhou, Dongguan and Jiangmen, as well as previously established

operations in Shanghai, Foshan, Guangzhou and Shenzhen. AIG also expects India and Vietnam to offer additional opportunities for growth.

AIG expects that ILFC will continue its growth and operating profitability even as the airline industry remains under stress. ILFC derives over 80 percent of its lease revenues from foreign carriers, thus limiting its exposure to the domestic commercial aviation market which is significantly more depressed than the rest of the industry. AIG is also optimistic about opportunities for growth in its consumer finance business through continued expansion of overseas credit card operations and alternative distribution systems such as the use of the Internet. During 2003, AIG also expects to expand its recently formed international retirement savings operations.

CRITICAL ACCOUNTING ESTIMATES

Note 1 of Notes to Financial Statements provides a summary of the GAAP accounting policies significant to AIG. Among these policies requiring significant judgment, 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, and fair value determinations with respect to certain assets and liabilities of certain of the subsidiaries of AIG's financial services operations. These accounting estimates require the use of assumptions about matters that are highly uncertain at the time of estimation. Reserves for losses and loss expenses are estimated using data where the more recent accident years of long tail casualty lines have limited statistical credibility in reported net losses. (See also the discussions "Reserve for Losses and Loss Expenses", "Loss Reserve Charge", and "Asbestos and Environmental Claims" herein.) The liability for future policy benefits for life and accident and health contracts include estimates for interest rates, mortality and surrender rates and invested asset performance. (See also the discussion "Life Insurance Operations".) Recoverability of deferred policy acquisition costs are contingent upon the underlying insurance operations being profitable. (See also the discussions "General Insurance Operations", "Life Insurance Operations" and "Retirement Savings and Asset Management Operations" herein.) Fair value determinations with respect to certain assets and liabilities of certain subsidiaries of AIG's financial services operations are arrived at through the use of valuation models. (See also the discussion "Managing Market Risk" herein.)

OPERATIONAL REVIEW

On August 29, 2001, American General Corporation (AGC), was acquired by AIG. In connection with the acquisition, AIG issued approximately 290 million shares of its common stock in exchange for all the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The acquisition was accounted for as a pooling of interests and the accompanying financial statements have been prepared to retroactively combine AGC's financial statements with AIG's financial statements.

GENERAL INSURANCE OPERATIONS

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

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

AIG's Foreign General insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. (See also Note 2 of Notes to Financial Statements.)

GENERAL INSURANCE OPERATIONS FOR 2002, 2001 AND 2000 WERE AS FOLLOWS:

(in millions)

	2002	2001	2000
Net premiums written	$ 27,414	$ 20,101	$ 17,526
Change in unearned premium reserve	(3,145)	(736)	(119)
Net premiums earned	24,269	19,365	17,407
Losses incurred	18,449(a)	13,228(c)	11,379
Loss expensesincurred	2,365(b)	2,178	1,725
Underwriting expenses	4,690	3,871	3,518
Adjusted underwriting profit (loss)	(1,235)	88	785
Net investment income	2,760	2,893	2,701
Realized capital gains (losses)	(858)	(130)	38
Operating income	$ 667	$ 2,851	$ 3,524

(a) Includes loss reserve charge of $2.8 billion.

(b) Includes 21st Century's loss adjustment expense pre-tax provision of $43 million for SB1899 Northridge earthquake claims.

(c) Includes WTC losses of $769 million in the aggregate.

GENERAL INSURANCE OPERATIONS BY MAJOR OPERATING UNIT FOR 2002, 2001 AND 2000 WERE AS FOLLOWS:

(in millions)

	2002	2001	2000
Net premiums written:			
Domestic General			
DBG(a)	$ 15,214	$ 10,197	$ 7,934
Transatlantic	2,500	1,906	1,659
Personal Lines	3,182	2,454	2,510
Mortgage Guaranty	508	494	453
Foreign General(a)	6,010	5,050	4,970
Total	$ 27,414	$ 20,101	$ 17,526
Net premiums earned:			
Domestic General			
DBG(a)	$ 13,053	$ 9,776	$ 8,023
Transatlantic	2,369	1,790	1,632
Personal Lines	2,913	2,478	2,401
Mortgage Guaranty	502	489	452
Foreign General(a)	5,432	4,832	4,899
Total	$ 24,269	$ 19,365	$ 17,407
Adjusted underwriting profit (loss):			
Domestic General			
DBG(a)	$ (2,049)(b)	$ (338)(c)	$ 177
Transatlantic	(58)(b)	(274)(c)	1
Personal Lines	29(d)	(92)	(37)
Mortgage Guaranty	278	311	270
Foreign General(a)	565	481(c)	374
Total	$ (1,235)	$ 88	$ 785
Net investment income:			
Domestic General			
DBG	$ 1,609	$ 1,827	$ 1,614
Transatlantic	252	240	234
Personal Lines	122	114	113
Mortgage Guaranty	139	106	93
Intercompany adjustments and eliminations - net	23	23	77
Foreign General	615	583	570
Total	$ 2,760	$ 2,893	$ 2,701
Operating income (loss) before realized capital gains (losses):			
Domestic General			
DBG(a)	$ (440)(b)	$ 1,489(c)	$ 1,791
Transatlantic	194(b)	(34)(c)	235
Personal Lines	151(d)	22	76
Mortgage Guaranty	417	417	363
Intercompany adjustments and eliminations - net	23	23	77
Foreign General(a)	1,180	1,064(c)	944
Total	1,525	2,981	3,486
Realized capital gains (losses)	(858)	(130)	38
Operating income	$ 667(b)	$ 2,851(c)	$ 3,524

(a) Reflects the realignment of certain internal divisions in each year.

(b) Includes loss reserve charge of $2.8 billion in the aggregate.

(c) Includes WTC losses of $769 million in the aggregate.

(d) Includes 21st Century's loss adjustment expense pre-tax provision of $43 million for SB1899 Northridge earthquake claims.

General Insurance Results

NET PREMIUMS WRITTEN AND NET PREMIUMS EARNED in 2002 increased 36.4 percent and 25.3 percent, respectively, from those of 2001. In 2001, net premiums written increased 14.7 percent and net premiums earned increased 11.2 percent when compared to 2000.

Commencing in the latter part of 1999 and continuing through 2002 and into the current quarter, the commercial property-casualty market place has experienced rate increases. Virtually all areas of DBG have experienced rate increases as well as maintaining an excellent retention rate for desired renewal business. The vast majority of the increase in 2002 resulted from rate increases with respect to renewed business. Overall, DBG's net premiums written increased $5.02 billion or 49.2 percent in 2002 over 2001. These increases compared to an increase of $2.26 billion or 28.5 percent in 2001 over 2000. DBG produced 55.5 percent of the general insurance net premiums written in 2002, 50.7 percent in

2001 and 45.3 percent in 2000.

Personal Lines' net premiums written increased 29.7 percent or $728 million in 2002 over 2001, reflecting auto insurance rate increases in many states, compared to a decrease of 2.2 percent or $56 million in 2001 from 2000.

Foreign General insurance net premiums written increased 19.0 percent and net premiums earned increased 12.4 percent. Foreign General insurance operations produced 21.9 percent of the general insurance net premiums written in 2002, 25.1 percent in 2001 and 28.4 percent in 2000.

In comparing the foreign currency exchange rates used to translate the results of AIG's foreign general operations during 2002 to those foreign currency exchange rates used to translate AIG's Foreign General results during 2001, the U.S. dollar strengthened slightly in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of the preparation of the consolidated financial statements, total general insurance net premiums written were approximately 1.2 percentage points less than they would have been if translated utilizing those foreign currency exchange rates which prevailed during 2001.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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

THE STATUTORY GENERAL INSURANCE RATIOS, INCLUDING THE $2.8 BILLION LOSS RESERVE CHARGE IN 2002 AND $769 MILLION OF WTC LOSSES IN 2001, WERE AS FOLLOWS:

	2002	2001	2000
Domestic General:			
Loss Ratio	92.86	85.89	80.99
Expense Ratio	17.72	17.64	17.39
Combined Ratio	110.58	103.53	98.38
Foreign General:			
Loss Ratio	61.13	60.51	60.71
Expense Ratio	28.99	31.67	31.69
Combined Ratio	90.12	92.18	92.40
Consolidated:			
Loss Ratio*	85.76	79.55	75.28
Expense Ratio	20.19	21.16	21.45
Combined Ratio	105.95	100.71	96.73

* The impact of the loss reserve charge and the WTC losses on the loss ratio was an increase of 11.54 in 2002 and 3.97 in 2001.

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

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

Statutory underwriting profit is arrived at by reducing net premiums earned by net losses and loss expenses incurred and net expenses incurred. Statutory accounting differs from GAAP, as statutory accounting, in general, 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 principle of matching. Therefore, to convert underwriting results to a GAAP basis, acquisition expenses are deferred (deferred acquisition costs - DAC) and amortized over the period the related premiums written are earned. Accordingly, the statutory underwriting profit has been adjusted as a result of acquisition expenses being deferred as required by GAAP. Thus, "adjusted underwriting profit" is a GAAP measurement which can be viewed as gross margin or an intermediate subtotal in calculating operating income and net income. DAC is reviewed for recoverability and such review requires significant management judgment. (See also Notes 1, 2 and 4 of Notes to Financial Statements.)

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

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

In 2002, AIG's general insurance results reflect the net impact of the loss reserve charge of $2.8 billion with respect to accident years 1997 through 2001. Such charge was the result of AIG's annual year-end review of general insurance loss reserves. (See also the discussion under "Loss Reserve Charge" herein.) In addition, these results reflect the net impact of catastrophe losses approximating $57 million in 2002, $867 million in 2001 (which include $769 million in WTC losses and $50 million with respect to the Northridge earthquake, following the unprecedented decision by the State of California to require all insurers to reopen claims nearly eight years after the occurrence), and $44 million in 2000. On a gross basis, incurred losses included $3.5 billion attributable to the loss reserve charge and approximately $245 million from catastrophes in 2002, and catastrophe losses of $2.15 billion in 2001 (which

include $2.0 billion in WTC losses), and $112 million in 2000.

With respect to catastrophe losses, AIG believes that it has taken appropriate steps to reduce the magnitude of possible future losses. The occurrence of one or more catastrophic events of unanticipated frequency or severity, such as a terrorist attack, earthquake or hurricane, that causes insured losses, however, could have a material adverse effect on AIG's results of operations, liquidity or financial condition. Current techniques and models may not accurately predict in the future the probability of catastrophic events and the extent of the resulting losses. Moreover, one or more catastrophe losses could impact negatively AIG's reinsurers and result in an inability of AIG to collect reinsurance recoverables. The impact of losses caused by catastrophes can fluctuate widely

from year to year, making comparisons of recurring type business more difficult. The pro forma table below excludes the loss reserve charge in 2002, WTC losses in 2001 and catastrophe losses in all three years in order to present comparable results of AIG's ongoing underwriting operations.

ON THE BASIS DISCUSSED ABOVE, THE PRO FORMA CONSOLIDATED STATUTORY GENERAL INSURANCE RATIOS WOULD BE AS FOLLOWS:

	2002	2001	2000
Published Loss Ratio	85.76	79.55	75.28
Loss reserve charge	(11.54)	--	--
WTC Losses	--	(3.97)	--
Catastrophes	(0.23)	(0.50)	(0.25)
Pro Forma	73.99	75.08	75.03
Expense Ratio	20.19	21.16	21.45
Combined Ratio	94.18	96.24	96.48

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

GENERAL INSURANCE NET INVESTMENT INCOME in 2002 decreased 4.6 percent when compared to 2001. In 2001, net investment income increased 7.1 percent over 2000. The decrease in net investment income in 2002 was primarily a result of lower earnings with respect to the general insurance private equity portfolio. Also, interest income earned from the general insurance bond portfolio was impacted by lower yields as the proceeds from maturing fixed income securities were reinvested. However, the cash flow resulting from the growth in net premiums written should have a positive impact on net investment income in future quarters. The growth in net investment income in 2001 and 2000 was primarily attributable to new cash flow for investment. The new cash flow was generated from net general insurance operating cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein and Note 8 of Notes to Financial Statements.)

GENERAL INSURANCE REALIZED CAPITAL LOSSES were $858 million in 2002 and $130 million in 2001, and realized capital gains were $38 million in 2000. These realized gains and losses resulted from the ongoing investment management of the general insurance portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities. (See the discussion on "Valuation of Invested Assets" herein.)

THE FOLLOWING TABLE RECONCILES GENERAL INSURANCE OPERATING INCOME ON A GAAP BASIS TO MANAGEMENT'S PRESENTATION HEREIN:

(in millions)

	2002	2001	2000
As reported	$ 667	$ 2,851	$ 3,524
Loss reserve charge	2,800	--	--
WTC losses	--	769	--
Realized capital (gains) losses	858	130	(38)
As adjusted -- Management reporting basis	$ 4,325	$ 3,750	$ 3,486

GENERAL INSURANCE OPERATING INCOME in 2002 decreased 76.6 percent when compared to 2001. This decline in the growth rate was caused by the $2.8 billion loss reserve charge as well as the $728 million increase in realized capital losses in 2002. If such loss reserve charge and realized capital losses were excluded from 2002 general insurance operations and the WTC losses and realized capital losses were excluded from 2001 general insurance operations, the growth in 2002 when compared to 2001 would be 15.4 percent. General insurance operating income in 2001 decreased 19.1 percent when compared to 2000 primarily due to the WTC losses. If the WTC losses, as well as realized capital losses, were excluded from 2001 general insurance operations and realized capital gains were excluded from 2000 general insurance operations, the increase would be 7.6 percent to $3.75 billion during 2001.

The contribution of general insurance operating income to income before income taxes, minority interest and cumulative effect of accounting changes was 8.2 percent in 2002 compared to 35.0 percent in 2001 and 35.2 percent in 2000. If the loss reserve charge in 2002 and the WTC losses in 2001 were excluded from each year's general insurance operating income and each of these years excluded realized capital losses or gains, as well as acquisition, restructuring and related charges were excluded from income before income taxes, minority interest and cumulative effect of accounting changes in 2001 and 2000, the general

insurance operating income contribution to income before income taxes, minority interest and cumulative effect of accounting changes would be 32.3 percent, 31.5 percent and 32.7 percent in 2002, 2001 and 2000, respectively.

Reinsurance

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

AIG'S GENERAL REINSURANCE ASSETS amounted to $28.77 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at December 31, 2002 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2002, approximately 40 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 60 percent of the general reinsurance assets were from authorized reinsurers and over 90 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness.

AIG maintains an allowance for estimated unrecoverable reinsurance and has been largely successful in its previous recovery efforts. At December 31, 2002, AIG had allowances for unrecoverable reinsurance approximating $120 million. At that date, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

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

At December 31, 2002, the consolidated general reinsurance assets of $28.77 billion include reinsurance recoverables for paid losses and loss expenses of $4.19 billion and $21.19 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments thereto are reflected in income currently. It is AIG's belief that the ceded reserves at December 31, 2002 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

Reserve for Losses and Loss Expenses

THE TABLE BELOW CLASSIFIES AS OF DECEMBER 31, 2002 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	$14,132
Other Liability Claims Made	8,559
Workers Compensation	6,064
Auto Liability	4,290
International	2,797
Property	2,691
Reinsurance	1,591
Medical Malpractice	1,560
Aircraft	1,448
Products Liability	1,262
Accident & Health	1,009
Fidelity/Surety	875
Other	5,261
Total	$51,539

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

At December 31, 2002, the loss reserves amounted to $51.54 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR and loss expenses. Certain of these loss reserves are discounted. These discounted reserves relate primarily to certain workers' compensation claims. At December 31, 2002, general insurance net loss reserves increased $4.45 billion from prior year end to $30.35 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and

to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at December 31, 2002. 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 December 31, 2002. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on future results of operations. See "Loss Reserve Charge" below.

In a very broad sense, the general loss reserves can be categorized into two distinct groups, one group being long tail casualty lines of business. Such lines include excess and umbrella liability, directors and officers' liability, professional liability, medical malpractice, general liability, products'

liability, and related classes. The other group is short tail lines of business consisting principally of property lines, personal lines and certain classes of casualty lines.

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

A variety of actuarial methods and assumptions are normally employed to estimate net losses for long tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long tail casualty lines, net loss trend factors approximated six 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. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs. Therefore, AIG's carried net long tail loss reserves are judgmentally set as well as tested for reasonableness using the most appropriate loss trend factors for each class of business. In the evaluation of AIG's net loss reserves, loss trend factors vary, depending on the particular class and nature of the business involved. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience. See "Loss Reserve Charge" below.

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

AIG's annual reserve review does not calculate a range of loss reserve estimates. Because AIG's general insurance business is primarily in volatile long tail casualty lines driven almost entirely by severity rather than frequency of claims, 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 evaluated against actual carried reserves.

It should also be noted that AIG's overall book of business consists of hundreds of segments or classes of business that are individually reviewed as part of the overall analysis of loss reserves. Most of these would fall into the category of longer tail lines of business. Due to the multitude of such classes and the volume of detail for each, it would not be possible to provide complete claim frequency, settlement, closure and other data for all such segments, nor does AIG believe that such disclosure by class of business would be meaningful or useful to the reader. It should be noted that none of the other segments or classes reflects the highly uncertain qualities that apply to the asbestos and environmental claims. For example, traditional actuarial methodologies can be applied to classes such as excess casualty, directors and officers liability, healthcare, and the other long tail coverages that AIG writes. These methodologies cannot be applied to asbestos and environmental exposures. Other than asbestos and environmental exposures, there is no area of significant exposure to AIG for which traditional actuarial methodologies cannot be applied.

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

Loss Reserve Charge

Following completion of its annual year-end net loss reserve study, AIG increased general insurance loss and loss adjustment reserves, incurring a net, after-tax charge of $1.8 billion in the fourth quarter of 2002.

THE TABLE BELOW CLASSIFIES THE COMPONENTS OF THE NET LOSS RESERVE CHARGE BY ACCIDENT YEAR AND MAJOR LINE OF BUSINESS:

(in millions)

Line of Business	Accident Year	Carried Reserves December 31, 2001	Loss Reserve Charge
Other Liability Occurrence(a)	1997	$ 359	$ 175
	1998	594	352
	1999	766	305
	2000	998	335
	2001	1,895	276
Total			$ 1,443
Other Liability Claims Made(b)	1997	$ 271	$ --
	1998	444	135
	1999	371	382
	2000	893	185

	2001	1,647	103
Total			$ 805
Workers' Compensation(c)	1996 &Prior	$ 1,102	$ 144
	1997	206	58
	1998	128	33
	1999	214	29
	2000	548	--
	2001	844	30
Total			$ 294
Medical Malpractice	1997	$ 31	$ 58
	1998	48	35
	1999	70	46
	2000	75	19
	2001	121	--
Total			$ 158
Reinsurance	1998	$ 126	$ 33
	1999	113	34
	2000	158	33
Total			$ 100
Total			$ 2,800

(a) Primarily excess casualty.

(b) Primarily directors and officers.

(c) Primarily excess workers' compensation.

In conducting its 2002 year end loss reserve analysis, AIG considered all classes of business that could be volatile and directly incorporated that specific class analysis into its overall results.

AIG's method for determining reserves for volatile long tail lines relies on the use of expected loss ratios such as the method known as the "Bornhuetter/Ferguson" method. This methodology essentially ignores all recent accident years for which loss development is too immature to give reliable results and, instead, bases the reserve estimate on the more mature prior accident year results.

In its 2002 year end analysis, AIG observed that the more recent immature accident years were showing significant increases in loss development. As a result, AIG modified its historical assumptions in producing an estimate of required reserves. A key modification was to give additional weight to the actual loss development in the immature years. For example, for AIG's excess casualty lead umbrella segment, AIG used the loss development for accident year 1999, even though that development normally would be considered too immature to produce reliable results (and therefore, not used under historical assumptions). Another key change for the most recent accident years (generally accident years 2000, 2001, 2002) is, although AIG continued to use actuarial assumptions that rely on expected loss ratios (such as the Bornhuetter/Ferguson method mentioned above), the expected loss ratio assumptions used gave far greater weight to more recent accident year experience than was the case in the historical assumptions. For example, for the excess casualty lead umbrella segment described above, AIG actuaries gave 100 percent weight to the results of the 1997 through 1999 accident years only, giving no weight to the more favorable development of all prior years, in setting expected loss ratio assumptions for accident years 2000 to 2002. Again, using the lead umbrella segment as an example, rather than using the historical trend factor of 2.5 percent per year as actually experienced, AIG used 7.5 percent as the annual loss cost trend factor reflecting the more current experience.

Loss development trends for volatile long tail lines such as excess casualty and directors and officers liability have not followed any consistent trend. This has at times led to overstated loss ratio projections and is a key reason why AIG has customarily utilized the historical projection (Bornhuetter/ Ferguson) method. For long tail lines, judgment is required in analyzing the appropriate weighting of current trends to avoid overreacting to data anomalies that may distort such current trends.

AIG's annual loss reserve review commences late in the third quarter and is completed late in the fourth quarter of each year. Although the year end 2001 annual loss reserve review, completed approximately one year ago, did show some indications of adverse development from most of the classes which required the increase in 2002, at that time, the indicated amount of reserve increase needed was immaterial. Furthermore, it was believed that the potential risk of adverse development from those reserves was mitigated for purposes of the overall loss development by what appeared at the time to be a potential redundancy in the adequacy of the unearned premium reserve as of year end 2001 as premium rates had been increased sharply in 2001. During 2002, however, there was substantial adverse development in AIG's excess casualty and directors and officers lines of business, as well as lesser amounts in certain other classes, including healthcare liability. These adverse developments were significant enough to not only cause a deficiency in the level of carried reserves, but to also suggest that AIG's assumptions for testing its reserves needed to be modified to account for the development in loss trends that was emerging for 1997 and subsequent accident years (as more fully discussed above). Using the modified assumptions, AIG's actuaries conducted further analysis of the reserves required as of December 31, 2002. Given the accuracy of the historical approach and the uncertainty of the more recent trends, AIG decided to give approximately equal weight to both sets of assumptions in establishing the carried reserves as of December 31, 2002.

Given the scope and complexity of AIG's general insurance operations and the extensive work and time required to review reserves, AIG's annual year end loss reserve review commences late in the third quarter. Recognition of the adverse development occurred at the end of the fourth quarter of 2002 as this was the quarter in which the year end 2002 loss reserve review was completed. The year end 2001 loss reserve review indicated that AIG's carried reserves as of year end 2001 were reasonable.

As described above, the trend AIG recognized as driving the change in the estimate is the adverse loss cost trend which occurred beginning with accident year 1997 and continued and accelerated in accident years 1998 and 1999. The increase in loss trends is concentrated in high severity coverages, such as excess casualty, excess workers' compensation, directors and officers liability, and healthcare liability. The change in the estimate correlates with this trend.

Asbestos and Environmental Claims

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

The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG established over a decade ago specialized toxic tort and environmental claim units, which investigate and adjust all such asbestos and environmental claims. These units utilize a comprehensive ground up approach to claim adjusting by thoroughly evaluating each exposure on a claim by claim basis. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage 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 analyses included herein.

Estimation of asbestos and environmental claims loss reserves is a difficult process. These asbestos and environmental claims cannot be estimated by conventional reserving techniques as previously described. Quantitative techniques frequently have to be supplemented by subjective considerations including managerial judgment. Significant factors which affect the trends which influence the development of asbestos and environmental claims are the inconsistent court

resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposure for cleanup costs of hazardous waste dump sites involves issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties.

In the interim, AIG and other industry members have and will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at December 31, 2002 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. In the future, if the environmental claims develop deficiently, such deficiency would have an adverse impact on future results of operations. (See the previous discussion on reinsurance collectibility herein.)

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

In asbestos, for example, AIG has resolved all claims with respect to miners and product manufacturers (Tier 1), for which payments are completed or reserves are established to cover future payment obligations. Asbestos claims with respect to products containing asbestos (Tier 2) accounts are generally very mature losses, and have been appropriately recognized and reserved by AIG's asbestos claims operation. AIG believes that the vast majority of the incoming claims, with respect to products containing small amounts of asbestos and companies in the distribution chain and parties with remote, ill-defined involvement with asbestos (Tier 3 and 4), should not impact its coverage; this is due to a combination of factors, including the increasingly peripheral companies being named in asbestos litigation, smaller limits issued to peripheral defendants, tenuous liability cases against peripheral defendants, attachment points of the excess policies, and the manner in which resolution of these weaker cases would be allocated among all insurers, including non-AIG companies, over a long period of time.

A SUMMARY OF RESERVE ACTIVITY, INCLUDING ESTIMATES FOR APPLICABLE IBNR, RELATING TO ASBESTOS AND ENVIRONMENTAL CLAIMS SEPARATELY AND COMBINED AT DECEMBER 31, 2002, 2001 AND 2000 FOLLOWS:

(in millions)

	2002		2001		2000	
	GROSS	NET	Gross	Net	Gross	Net
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 1,114	$ 312	$ 1,100	$ 338	$ 1,093	$ 306
Losses and loss expenses incurred*	395	168	358	92	405	80
Losses and loss expenses paid*	(205)	(80)	(344)	(118)	(398)	(48)
Reserve for losses and loss expenses at end of year	$ 1,304	$ 400	$ 1,114	$ 312	$ 1,100	$ 338
Environmental:						
Reserve for losses and loss expenses at beginning of year	$ 1,115	$ 407	$ 1,345	$ 517	$ 1,519	$ 585
Losses and loss expenses incurred*	(140)	(44)	(41)	(34)	(44)	(45)
Losses and loss expenses paid*	(143)	(67)	(189)	(76)	(130)	(23)
Reserve for losses and loss expenses at end of year	$ 832	$ 296	$ 1,115	$ 407	$ 1,345	$ 517
Combined:						
Reserve for losses and loss expenses at beginning of year	$ 2,229	$ 719	$ 2,445	$ 855	$ 2,612	$ 891
Losses and loss expenses incurred*	255	124	317	58	361	35
Losses and loss expenses paid*	(348)	(147)	(533)	(194)	(528)	(71)
Reserve for losses and loss expenses at end of year	$ 2,136	$ 696	$ 2,229	$ 719	$ 2,445	$ 855

* All amounts pertain to policies underwritten in prior years.

THE GROSS AND NET IBNR INCLUDED IN THE RESERVE FOR LOSSES AND LOSS EXPENSES AT DECEMBER 31, 2002, 2001 AND 2000 WERE ESTIMATED AS FOLLOWS:

(in millions)

	2002		2001		2000	

	GROSS	NET	Gross	Net	Gross	Net
Combined	$ 1,022	$ 283	$ 1,038	$ 278	$ 1,042	$ 314

A SUMMARY OF ASBESTOS AND ENVIRONMENTAL CLAIMS COUNT ACTIVITY FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 WAS AS FOLLOWS:

	2002			2001			2000		
	ASBESTOS	ENVIRONMENTAL	COMBINED	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	6,672	9,364	16,036	6,796	11,323	18,119	6,746	13,432	20,178
Claims during year:									
Opened	959	1,657	2,616	739	1,892	2,631	650	1,697	2,347
Settled	(154)	(546)	(700)	(124)	(988)	(1,112)	(101)	(584)	(685)
Dismissed or otherwise resolved	(392)	(1,480)	(1,872)	(739)	(2,863)	(3,602)	(499)	(3,222)	(3,721)
Claims at end of year	7,085	8,995	16,080	6,672	9,364	16,036	6,796	11,323	18,119

THE AVERAGE COST PER CLAIM SETTLED, DISMISSED OR OTHERWISE RESOLVED FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 WAS AS FOLLOWS:

	Gross	Net
2002		
ASBESTOS	$375,500	$146,500
ENVIRONMENTAL	70,600	33,100
COMBINED	135,300	57,200
2001		
Asbestos	$398,600	$136,700
Environmental	49,100	19,700
Combined	113,100	41,200
2000		
Asbestos	$663,300	$ 80,000
Environmental	34,200	6,000
Combined	119,800	16,100

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

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

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

AIG'S SURVIVAL RATIOS FOR INVOLUNTARY ASBESTOS AND ENVIRONMENTAL CLAIMS, SEPARATELY AND COMBINED, WERE BASED UPON A THREE YEAR AVERAGE PAYMENT. THESE RATIOS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 WERE AS FOLLOWS:

	Gross	Net
2002		
INVOLUNTARY SURVIVAL RATIOS:		
ASBESTOS	4.1	4.9
ENVIRONMENTAL	17.6	13.3
COMBINED	7.3	7.9

2001		
Involuntary survival ratios:		
Asbestos	3.3	4.3
Environmental	18.7	16.5
Combined	6.8	8.7
2000		
Involuntary survival ratios:		
Asbestos	3.6	6.8
Environmental	20.0	16.9
Combined	7.6	11.5

AIG's operations are negatively impacted under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net

assessment cannot reasonably be estimated. The guarantee fund assessments net of credits for 2002, 2001 and 2000 were $76 million, $24 million and $15 million, respectively.

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

LIFE INSURANCE OPERATIONS

AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of fixed and variable annuities, guaranteed investment contracts and pensions. (See also Note 2 of Notes to Financial Statements.)

LIFE INSURANCE OPERATIONS PRESENTED ON A MAJOR PRODUCT BASIS FOR 2002, 2001 AND 2000 WERE AS FOLLOWS:

(in millions)

	2002	2001(a)	2000(a)
GAAP premiums:			
Domestic:			
Life Insurance	$ 1,626	$ 1,515	$ 1,522
Individual Fixed Annuities(b)	42	437	380
Guaranteed Investment Contracts	28	--	(7)
Home Service	854	876	953
Group Life/Health	967	925	969
Pension and Investment Products(b)	1,105	1,144	665
Accident & Health(c)	--	51	327
Total Domestic	4,622	4,948	4,809
Foreign:			
Life Insurance	12,000	10,771	9,474
Personal Accident	2,491	2,196	1,924
Group Products	1,094	1,050	851
Guaranteed Investment Contracts	113	98	105
Total Foreign	15,698	14,115	12,354
Total GAAP premiums	$ 20,320	$ 19,063	$ 17,163
Premium income, deposits and other considerations(d)(e):			
Domestic:			
Life Insurance(f)	$ 2,411	$ 2,724	$ 2,256
Individual Fixed Annuities	10,328	7,605	5,079
Guaranteed Investment Contracts	9,078	8,242	6,752
Home Service	861	878	953
Group Life/Health	976	930	969
Pension and Investment Products	1,782	3,020	2,368
Accident & Health(c)	--	157	327
Total Domestic	$ 25,436	$ 23,556	$ 18,704
Foreign:			
Life Insurance	13,440	12,066	10,256
Personal Accident	2,497	2,173	1,923
Group Products	1,579	1,660	1,266
Guaranteed Investment Contracts	5,710	4,162	6,070
Total Foreign	23,226	20,061	19,515
Total premium income, deposits and other considerations	$ 48,662	$ 43,617	$ 38,219
Net investment income:			
Domestic:			
Life Insurance	$ 1,417	$ 1,329	$ 1,306
Individual Fixed Annuities	3,229	2,874	2,708
Guaranteed Investment Contracts	2,052	1,836	1,321
Home Service	683	653	669
Group Life/Health	108	105	107
Pension and Investment Products	836	702	662
Accident & Health(c)	--	5	8
Total Domestic	8,325	7,504	6,781
Foreign:			
Life Insurance	3,206	2,848	2,432
Personal Accident	141	128	129

Group Products	255	227	223
Guaranteed Investment Contracts	359	387	406
Intercompany Adjustments	(12)	(10)	(9)
Total Foreign	3,949	3,580	3,181
Total net investment income	$ 12,274	$ 11,084	$ 9,962
Operating income before realized capital losses:			
Domestic:			
Life Insurance(g)	$ 777	$ 555	$ 614
Individual Fixed Annuities	729	679	611
Guaranteed Investment Contracts	581	445	159
Home Service	382	374	353
Group Life/Health	101	87	69
Pension and Investment Products	118	144	150
Accident & Health(c)	--	4	23
Total Domestic(g)	2,688	2,288	1,979
Foreign:			
Life Insurance	2,411	1,914	1,558
Personal Accident	681	572	531
Group Products	175	127	107
Guaranteed Investment Contracts	39	38	54
Intercompany Adjustments	(12)	(10)	(9)
Total Foreign	3,294	2,641	2,241
Total operating income before realized capital losses	5,982	4,929	4,220
Realized capital losses	(1,053)	(254)	(162)
Total operating income(g)	$ 4,929	$ 4,675	$ 4,058
Life insurance in-force:			
Domestic	$ 577,686	$ 517,067	$ 477,576
Foreign(h)	746,765	711,434	494,316
Total	$ 1,324,451	$ 1,228,501	$ 971,892

(a) Restated to conform to the 2002 presentation.

(b) 2001 and 2000 GAAP premiums included certain annuity products now reported in Pension and Investment Products.

(c) Beginning 2001, certain Accident & Health operations are part of DBG.

(d) Represents a non-GAAP measurement used by AIG to help manage its life insurance operation, and may not be comparable to similarly captioned measurements used by other life insurance companies.

(e) Premium income, deposits and other considerations represent aggregate business activity during the respective periods.

(f) The decline in life premiums is due primarily to lower private placement and corporate life market sales.

(g) 2001 included WTC losses of $131 million.

(h) Increase in 2001 reflects acquisition of AIG Star Life Insurance Co., Ltd. in April 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Life Insurance Results

LIFE INSURANCE OPERATING INCOME in 2002 increased 5.4 percent to $4.93 billion compared to an increase of 15.2 percent in 2001. This decline in the growth rate was caused by the $799 million increase in realized capital losses. If such losses were excluded from both the 2002 and 2001 life insurance operating income and WTC losses of $131 million excluded from 2001 life operating income, the growth in 2002 life operating income when compared to 2001 life operating income would be 18.2 percent.

THE FOLLOWING TABLE RECONCILES THE LIFE OPERATING INCOME REPORTED ON A GAAP BASIS TO THE PRESENTATION AIG MANAGEMENT BELIEVES IS MOST MEANINGFUL:

(in millions)

	2002	2001	2000
As reported	$4,929	$4,675	$4,058
WTC losses	--	131	--
Realized capital losses	1,053	254	162
As adjusted -- Management reporting basis	$5,982	$5,060	$4,220

The contribution of life insurance operating income to income before income taxes, minority interest and cumulative effect of accounting changes and excluding acquisition, restructuring and related charges amounted to 60.5 percent in 2002 compared to 46.0 percent in 2001 and 39.3 percent in 2000. The increase in contribution percentage was influenced by the impact of the general insurance loss reserve charge in 2002 and the WTC losses in 2001 on general insurance operating income and its reduced contribution to income before income taxes, minority interest and cumulative effect of accounting changes.

If the loss reserve charge and realized capital losses were excluded from 2002 income before income taxes, minority interest and cumulative effect of accounting changes and WTC losses from 2001 and realized capital losses and acquisition restructuring and related charges were excluded from 2001 and 2000 income before income taxes, minority interest and cumulative effect of accounting changes, the contribution of life operating income to income before income taxes, minority interest and cumulative effect of accounting changes would be 44.7 percent, 42.6 percent and 39.6 percent in 2002, 2001 and 2000, respectively.

AIG'S GAAP LIFE PREMIUM INCOME IN 2002 REPRESENTED A 6.6 PERCENT INCREASE FROM THE PRIOR YEAR. The slowing in growth in 2002 reflected lower demand and sales of annuities in connection with corporate pension restructuring activities in domestic operations. This compares with an increase of 11.1 percent in 2001 over 2000. Foreign life operations produced 77.3 percent, 74.0 percent and 72.0 percent of the GAAP life premium income in 2002, 2001 and 2000, respectively. (See also Notes 1, 4 and 6 of Notes to Financial Statements.)

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

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

As previously discussed, the U.S. dollar strengthened slightly in relation to most major foreign currencies in which AIG transacts business. Accordingly for 2002, when foreign life premium income was translated into U.S. dollars for purposes of the preparation of the consolidated financial statements, total life premium income was approximately 1.6 percentage points less than it would have been if translated utilizing exchange rates prevailing in 2001.

LIFE INSURANCE NET INVESTMENT INCOME increased 10.7 percent in 2002 compared to an increase of 11.3 percent in 2001. The growth in net investment income was attributable to both foreign and domestic new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

LIFE INSURANCE REALIZED CAPITAL LOSSES were $1.05 billion in 2002, $254 million in 2001 and $162 million in 2000. These realized capital losses resulted from the ongoing investment management of the life insurance portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities. (See also the discussion on "Valuation of Invested Assets" herein.)

Underwriting and Investment Risk

The risks associated with the traditional life and accident and health products are underwriting risk and investment risk. The risk associated with the financial and investment contract products is 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. AIG's foreign life companies limit their maximum underwriting exposure on traditional life insurance of

a single life to approximately $1.5 million dollars of coverage and AIG's domestic life companies, limit their maximum underwriting exposure on traditional life insurance of a single life to $2.5 million of coverage by using yearly renewable term reinsurance. (See also Note 5 of Notes to Financial Statements and the discussion under "Liquidity" herein.)

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

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

To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. (See also the discussion under "Liquidity" herein.)

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

AIG uses asset-liability matching as a management tool worldwide to determine the composition of the invested assets and 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.

For the ALICO operations in Japan, the variable life contract separate account fund performance has varied from the level assumed in the original pricing of the product. Thus, a general account liability has been established for the potential shortfall of future contract revenues. The ultimate liability is predominately dependent upon the fund performance in the future.

Deferred policy acquisition costs (DAC) for life insurance 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 traditional 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 (non-traditional life products) are deferred and amortized, with interest, in relation to the historical and future incidence of estimated gross profits to be realized over the estimated lives of the contracts. 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 impact 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 appropriately adjusted.

DAC for both traditional life and non-traditional life products are subject to review for recoverability, which involve estimating the future profitability of current business. This review also involves significant management judgment. (See also Note 4 of Notes to Financial Statements.)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

FINANCIAL SERVICES OPERATIONS

AIG's financial services subsidiaries engage in diversified financial products and services including aircraft leasing, consumer and insurance premium financing, and capital markets structuring and market-making activities. (See also Note 2 of Notes to Financial Statements.)

FINANCIAL SERVICES OPERATIONS FOR 2002, 2001 AND 2000 WERE AS FOLLOWS:

(in millions)

	2002	2001	2000
Revenues:			
ILFC (a)	$ 2,845	$ 2,613	$ 2,441
AIGFP (b)	1,306	1,178	1,056
Consumer Finance (c)	2,473	2,560	2,325
Other	191	134	132
Total	$ 6,815	$ 6,485	$ 5,954
Operating income:			
ILFC	$ 801	$ 749	$ 654
AIGFP	808	758	648
Consumer Finance	549	505	386
Other, including intercompany adjustments	31	(21)	(22)
Total	$ 2,189	$ 1,991	$ 1,666

(a) Revenues were primarily from aircraft lease rentals.

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

(c) Revenues were primarily finance charges.

FINANCIAL SERVICES RESULTS

FINANCIAL SERVICES OPERATING INCOME increased 9.9 percent in 2002 over 2001. This compares with an increase of 19.5 percent in 2001 over 2000.

Financial services operating income represented 26.9 percent of AIG's income before income taxes, minority interest and cumulative effect of accounting changes and excluding acquisition, restructuring and related charges in 2002. This compares to 19.6 percent and 16.1 percent in 2001 and 2000, respectively. The increase in contribution percentage was influenced by the impact of the general insurance loss reserve charge in 2002 and the WTC losses in 2001 on general insurance operating income and its reduced contribution to income before income taxes, minority interest and cumulative effect of accounting changes.

ILFC generates its revenues primarily from leasing commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in 2002 increased 8.9 percent from 2001 compared to an 7.0 percent increase during 2001 from 2000. The revenue growth in each year resulted primarily from the increase in flight equipment under operating lease and the increase in the relative cost of the leased fleet. ILFC has historically derived over 80 percent of its lease revenues with respect to flight equipment from airlines based outside the United States and is not significantly exposed to current domestic airline difficulties.

ILFC has historically re-leased aircraft returning at the end of a lease before the aircraft returns to ILFC. For aircraft returning before the end of their lease terms, ILFC has generally been able to re-lease aircraft returned from the prior lessee within two to three months of its return. 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 December 31, 2002 which had been off lease for less than three months. No impairments have been recognized related to these aircraft as ILFC believes that the existing service potential of the aircraft in ILFC's portfolio has not been diminished and ILFC has been able to re-lease the aircraft without diminution in lease rates from those previously obtained that would require an impairment write-down.

ILFC management is very active in the airline industry. 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). No impairments have been recognized related to these aircraft. (See also the discussions under "Liquidity" herein.)

During 2002, ILFC's operating income increased 6.9 percent from 2001 and 14.6 percent during 2001 from 2000. ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing rates at December 31, 2002, 2001 and 2000 were 4.73 percent, 5.07 percent and 6.37 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 non-performance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and through committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. As a result of these measures and its own contingency planning, ILFC did not suffer any material losses from airline shutdowns in the aftermath of the September 11 terrorist attacks, but there can be no assurance that ILFC will successfully manage the risks relating to the impact of possible future deterioration in the airline industry. Approximately 86 percent of ILFC's fleet is leased to non-U.S. carriers, and this fleet, the most efficient in the airline industry, continues to be in high demand from such carriers. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIGFP participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated

forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions.

As a dealer, AIGFP marks its transactions daily to fair value. Thus, a gain or loss on each transaction is recognized daily. 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. Revenues of AIGFP and the percentage change in revenues for any given period are significantly affected by the number and size of transactions entered into by AIGFP 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. The realization of operating income as measured by the receipt of funds is not a significant event as the profit or loss on each of AIGFP's transactions has already been reflected in operating income. Revenues in 2002 increased 10.9 percent from 2001 compared to a 11.6 percent increase during 2001 from 2000. During 2002, operating income increased 6.6 percent from 2001 and increased 17.0 percent during 2001 from 2000. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance.

THE BREAKDOWN BY PERCENTAGE CONTRIBUTION OF REVENUES AND OPERATING INCOME FOR AIGFP IN 2002, 2001 AND 2000 IS SET FORTH BELOW. THE PERCENTAGES FOR OPERATING INCOME ARE THE SAME AS THOSE FOR REVENUES BECAUSE EXPENSES ARE ALLOCATED ACROSS ALL PRODUCTS IN PROPORTION TO THE REVENUES GENERATED BY THAT PRODUCT. MATERIAL CHANGES IN THE DISTRIBUTION OF REVENUES AND OPERATING INCOME ARE NOT MEANINGFUL BECAUSE OF THE TRANSACTIONAL NATURE OF AIGFP'S BUSINESS.

	2002	2001	2000
Spread Income on Investments and Borrowings	48%	36%	32%
Interest Rate Products	19	29	30
Equity Linked Products	3	14	25
Credit Linked Products	29	11	12
Other revenue	1	10	1

Financial market conditions in 2002 compared with 2001 were characterized by a continuing decline in interest rates across fixed income markets globally, a worldwide slump in credit prices with the concomitant widening of credit spreads, and a continuing decline in equity valuations. AIGFP's results in 2002 compared with 2001 reflected a shift in product segment activity to respond to these conditions. In particular, AIGFP experienced increases in demand for credit linked products that addressed the risk management needs of its counterparties (see also the discussion under "Derivatives" herein). The increase in spread income on investments and borrowings reflected the widening of credit spreads, as well as an increase in asset class diversification. Finally, the sharp decline in equity linked products reflected substantially reduced demand for products that hedge appreciated equity positions.

Derivative transactions are entered into in the ordinary course of AIGFP's business. Therefore, income on interest rate, equity and credit derivatives along with their related hedges are recorded on a mark to market value or at estimated fair value where market prices are not readily available with the resulting unrealized gains or losses reflected in the income statement in the current year. In 2002, 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 interest rate and currency swaps, options and forward transactions" and "Unrealized loss on interest rate and currency swaps, options and forward transactions". The unrealized gain represents the net receivable from counterparties, and the unrealized loss represents the net payable to counterparties. These amounts will change from one period to the next due to changes in interest rates, currency rates, equity prices and other market variables, as well as cash movements, execution of new transactions and the maturing of existing transactions. Spread income on investments and borrowings are recorded on an accrual basis over the life of the transaction. Investments are classified as available for sale securities and are marked to market with the resulting gains or losses reflected in the equity section.

The most significant component of AIGFP's operating expenses is compensation, which approximated 36 percent, 31 percent and 31 percent of revenues in 2002, 2001 and 2000, respectively.

Domestically, AIG's consumer finance operations derive a substantial portion of their revenues from finance charges assessed on outstanding mortgages and finance receivables from the sub-prime market, while overseas operations are engaged in developing a multi-product consumer finance business with an emphasis on emerging markets. Revenues in 2002 decreased 3.4 percent from 2001 compared to a 10.1 percent increase during 2001 from 2000, but 2002 operating income increased 8.9 percent from 2001 and 30.8 percent during 2001 from 2000. The decline in revenues was the result of lower yields on the finance receivables, but borrowing costs also declined significantly so that spreads, and therefore profits, increased as a result. The growth in revenues during 2001 was generally due to the growth in the average finance receivables. The increases in operating income resulted from the growth in finance charges inuring from larger loan balances and improved credit quality of the receivables portfolio, partially

offset by lower yields on finance receivables in 2001. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

Consumer finance operations are exposed to loss when contractual payments are not received; collection exposure is managed through the mix of types of loans and security thereon. (See also Notes 8 and 9 of Notes to Financial Statements.)

RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS

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

For variable annuities, AIG's policy has been to adjust amortization assumptions for deferred acquisition costs (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 10 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.

A number of guaranteed minimum death benefits (GMDB) and other similar benefits are offered on variable annuities. GMDB-related contract benefits incurred, net of reinsurance were $77 million, $20 million and $3 million for 2002, 2001 and 2000, respectively. The significant increase in 2002 is directly related to the worldwide slump in equity markets. In accordance with GAAP, AIG expenses these benefits in the period incurred. With respect to the other benefits, substantially all of AIG's policy obligations are reinsured.

RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATIONS FOR 2002, 2001 AND 2000 WERE AS FOLLOWS:

(in millions)

	2002	2001	2000
Revenues:			
AIG VALIC	$2,133	$2,110	$2,230
AIG SunAmerica	563	652	750
Other*	789	950	485
Total	$3,485	$3,712	$3,465
Operating income:			
AIG VALIC	$ 730	$ 630	$ 692
AIG SunAmerica	32	185	326
Other*	254	273	90
Total	$1,016	$1,088	$1,108

* Includes AIG Global Investment Group, John McStay Investment Counsel, L.P. and certain overseas variable annuity operations.

Retirement Savings & Asset Management Results

RETIREMENT SAVINGS & ASSET MANAGEMENT OPERATING INCOME decreased 6.6 percent in 2002 from 2001, reflecting the continued volatility in worldwide equity markets. This compares with a decrease of 1.8 percent in 2001 from 2000.

Retirement savings & asset management operating income represented 12.5 percent of AIG's income before income taxes, minority interest and cumulative effect of accounting changes and excluding acquisition, restructuring and related charges. This compares to 10.7 percent in both 2001 and 2000.

At December 31, 2002, AIG's third party assets under management, including both retail mutual funds and institutional accounts, approximated $40 billion.

OTHER OPERATIONS

Other realized capital losses amounted to $530 million, $452 million and $190 million in 2002, 2001 and 2000, respectively.

Other income (deductions)-net includes income generated by the investment of capital held by AIG SunAmerica outside of its life insurance subsidiaries, AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. Other income (deductions)-net amounted to $(129) million, $3 million and $172 million in 2002, 2001 and 2000, respectively. This decline was primarily the result of weaker performance of

AIG SunAmerica investments in partnerships and private equities and 21st Century's third quarter 2002 pre-tax charge of $37 million to write off capitalized costs associated with a software development project. Acquisition, restructuring and related charges of $2.02 billion were incurred in 2001 in connection with the acquisition of AGC, including $654 million paid by AGC in connection with the termination of AGC's merger agreement with Prudential plc. Charges of $315 million in 2000 were incurred by AGC in connection with acquisitions by AGC prior to its acquisition by AIG. (See also Note 19 of Notes to Financial Statements.)

Income before income taxes and minority interest amounted to $8.14 billion in 2002. Income before income taxes, minority interest and cumulative effect of accounting changes amounted to $8.14 billion in 2001. Income before income taxes and minority interest amounted to $10.02 billion in 2000.

In 2002, AIG recorded a provision for income taxes of $2.33 billion compared to the provisions of $2.34 billion and $2.97 billion in 2001 and 2000, respectively. These provisions represent effective tax rates of 28.6 percent in 2002, 28.7 percent in 2001 and 29.6 percent in 2000. (See Note 3 of Notes to Financial Statements.)

Minority interest represents minority shareholders' equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to $295 million, $301 million and $413 million in 2002, 2001 and 2000, respectively.

Income before the cumulative effect of accounting changes amounted to $5.52 billion in 2002, $5.50 billion in 2001 and $6.64 billion in 2000.

Net income amounted to $5.52 billion in 2002, $5.36 billion in 2001 and $6.64 billion in 2000. The increase in 2002 and the decrease in 2001 in net income over the three year period resulted from those factors described above.

CAPITAL RESOURCES

At December 31, 2002, AIG had total capital funds of $59.10 billion and total borrowings of $71.89 billion. At that date, $64.98 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Borrowings

TOTAL BORROWINGS AND BORROWINGS NOT GUARANTEED OR MATCHED AT DECEMBER 31, 2002 AND 2001 WERE AS FOLLOWS:

(in millions)

December 31,	2002	2001
GIAs -- AIGFP	$14,850	$16,392
Commercial Paper:		
ILFC (a)	4,213	3,494
AGF (a)	2,956	4,853
AIG Funding, Inc.	1,645	902
AIG Credit Card Company (Taiwan) (a)	234	68
AIG Finance (Taiwan) Limited (a)	64	107
AGC	--	2,468
Total	9,112	11,892
Medium Term Notes:		
AGF (a)	7,719	4,100
ILFC (a)	4,970	4,809
AIG	998	542
Total	13,687	9,451
Notes and Bonds Payable:		
AIGFP	16,940	13,920
ILFC (a) (b)	9,825	7,073
AGF (a)	2,266	2,201
AIG	1,608	1,577
AGC	1,542	1,340
Total	32,181	26,111
Loans and Mortgages Payable:		
AIGCFG (a)	735	885
AIG	697	345
ILFC (a) (c)	261	365
AIG Finance (Hong Kong) Limited (a)	229	290
Other subsidiaries (a)	133	--
Total	2,055	1,885
Total Borrowings	71,885	65,731
Borrowings not guaranteed by AIG	33,605	28,245
Matched GIA borrowings -- AIGFP	14,850	16,392
Matched notes and bonds payable -- AIGFP	16,526	12,185
	64,981	56,822

Remaining borrowings of AIG	$ 6,904	$ 8,909

(a) AIG does not guarantee these borrowings.

(b) Includes borrowings under Export Credit Facility of $2.09 billion.

(c) Capital lease obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

AT DECEMBER 31, 2002, THE COMMERCIAL PAPER ISSUED AND OUTSTANDING WAS AS FOLLOWS:

(dollars in millions)

	NET BOOK VALUE	UNAMORTIZED DISCOUNT AND ACCRUED INTEREST	FACE AMOUNT	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE MATURITY IN DAYS
ILFC	$4,213	$ 6	$4,219	1.46%	35
AGF	2,956	3	2,959	1.43	33
Funding	1,645	1	1,646	1.45	20
AIGCCC -- Taiwan*	234	1	235	2.61	31
AIGF -- Taiwan*	64	--	64	4.09	60
Total	$9,112	$ 11	$9,123	--	--

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

See also Note 9 of Notes to Financial Statements.

During 2002, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to $16.94 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under "Operational Review", "Liquidity" and "Derivatives" herein and Notes 1, 2, 8, 9, and 12 of Notes to Financial Statements.)

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

ILFC and A.I. Credit Corp. (AICCO), AIG Credit Card Company (Taiwan) -- (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited -- (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, AGC and AGF have issued commercial paper for the funding of their own operations. At December 31, 2002, AIG did not guarantee the commercial paper of any of its subsidiaries other than Funding. On July 8, 2002, AGC ceased issuing commercial paper under its program. AGC's funding requirements are now being met through Funding's commercial paper program. (See also the discussion under "Derivatives" herein and Note 9 of Notes to Financial Statements.)

AIG and Funding are parties to unsecured syndicated revolving credit facilities (collectively, the Facility) aggregating $2.75 billion. The Facility consists of $1.375 billion in a short-term revolving credit facility and $1.375 billion in a five year revolving credit facility. The Facility can be used for general corporate purposes and also to provide backup for Funding's commercial paper programs. There are currently no borrowings outstanding under the Facility, nor were any borrowings outstanding as of December 31, 2002.

AGF is a party to unsecured syndicated revolving credit facilities aggregating $3.0 billion. The facilities consist of $1.5 billion in a short-term revolving credit facility and $1.5 billion in a five year revolving credit facility, which support AGF's commercial paper borrowings. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of December 31, 2002. AGF had $4.3 billion in aggregate principal amount of debt securities registered and available for issuance at December 31, 2002. AGF uses the proceeds from the issuance of notes and bonds for the funding of its finance receivables.

As of November 2001, AIG guaranteed the notes and bonds of AGC. During 2002, AGC issued $200 million in notes which matured in March 2003. These notes are included in Notes and Bonds Payable in the preceding table of borrowings.

ILFC is a party to unsecured syndicated revolving credit facilities aggregating $3.15 billion to support its commercial paper program. The facilities consist of $2.15 billion in a short-term revolving credit facility and $1.0 billion in a three year revolving credit facility. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of December 31, 2002.

At December 31, 2002, ILFC had increased the aggregate principal amount outstanding of its medium term and long-term notes to $14.80 billion, a net increase of $2.91 billion, and recorded a net decline in its capital lease obligations of $104 million and a net increase in its commercial paper of $719 million. ILFC had $6.08 billion of debt securities registered for public sale at December 31, 2002. During the second quarter of 2002, ILFC expanded its Euro Medium Term Note Program from $2.0 billion to $4.0 billion, under which $2.31 billion in notes were sold through December 31, 2002. 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 borrowings depending on the delivery date of the aircraft. At December 31, 2002, ILFC had $2.09 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. Borrowings with respect to this facility are included in Notes and Bonds Payable in the preceding table of borrowings.

The proceeds of ILFC's debt financing are primarily used to purchase flight equipment, including progress payments during the construction phase. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight

equipment and the rollover and refinancing of the prior debt. (See also the discussions under "Operational Review" and "Liquidity" herein.)

AIGFP has established a Euro Medium Term Note Program under which an aggregate principal amount of up to $4.0 billion of notes may be issued. As of December 31, 2002, $2.09 billion of notes had been issued under the program, all of which are currently outstanding. Notes issued under this program are included in Notes and Bonds Payable in the preceding table of borrowings.

During 2002, AIG issued $504 million principal amount of Medium Term Notes, and $48 million of previously issued notes matured. At December 31, 2002, AIG had $140 million in aggregate principal amount of debt securities registered for issuance from time to time.

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

Capital Funds

AIG's capital funds increased $6.95 billion during 2002. Unrealized appreciation of investments, net of taxes increased $3.15 billion. During 2002, the cumulative translation adjustment loss, net of taxes, increased $381 million. The change for 2002 with respect to the unrealized appreciation of investments, net of taxes, was primarily impacted by the decrease in domestic interest rates. The 2001 transfer of bonds in the held to maturity at amortized cost to the bonds available for sale at market value in accordance with the transition provisions of Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities," resulted in a gain of $339 million recorded in the statement of comprehensive income as a cumulative effect of an accounting change adjustment. The 2001 capital funds included a cumulative effect of an accounting change adjustment gain of $150 million. During 2002, there was a loss of $293 million, net of taxes relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under "Operational Review" and "Liquidity" herein, Notes 1(y) and 8(d) of Notes to Financial Statements and the Consolidated Statement of Comprehensive Income.) During 2002, retained earnings increased $5.05 billion, resulting from net income less dividends.

Stock Repurchase

During 2002, AIG repurchased in the open market 10,858,000 shares of its common stock. During 2003 through March 20, 2003 AIG repurchased in the open market an additional 1,625,000 shares of its common stock. AIG intends to continue to buy its common shares in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans.

Dividends from Insurance Subsidiaries

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At December 31, 2002, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity, but there can be no assurance that such issues will not arise in the future. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein and Note 11 of Notes to Financial Statements.)

Regulation and Supervision

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At December 31, 2002, the adjusted capital of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards. Federal, state or local legislation may affect AIG's ability to operate and expand its various financial services businesses and changes in the current laws, regulations or interpretations thereof may have a material adverse effect on these businesses.

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

financial exposure at that time in that country.

Contractual Obligations and
Other Commercial Commitments

THE MATURITY SCHEDULE OF AIG'S CONTRACTUAL OBLIGATIONS AT DECEMBER 31, 2002 WAS AS FOLLOWS:

(in millions)

DECEMBER 31, 2002	PAYMENTS DUE BY PERIOD				
	TOTAL	2003	2004 THROUGH 2005	2006 THROUGH 2007	REMAINING YEARS AFTER 2007
Borrowings*	$62,773	$22,468	$13,485	$ 8,410	$18,410
Operating Leases	2,105	477	594	318	716
Aircraft Purchase Commitments	29,816	4,430	9,807	9,354	6,225
Other Long-Term Obligations:					
ILFC	853	391	462	--	--
Other	152	17	46	39	50
Total	$95,699	$27,783	$24,394	$18,121	$25,401

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

THE MATURITY SCHEDULE OF AIG'S OTHER COMMERCIAL COMMITMENTS AT DECEMBER 31, 2002 WAS AS FOLLOWS:

(in millions)

	AMOUNT OF COMMITMENT EXPIRATION				
	TOTAL AMOUNTS COMMITTED	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Letters of Credit:					
AIGFP	$ 811	$ 16	$ 9	$ 5	$ 781
Other	397	137	241	--	19
Guarantees:					
AIG SunAmerica	5,103	118	2,137	--	2,848
Other	663	473	66	20	104
Other Commercial Commitments:					
AIGFP (a)	4,232	3	12	337	3,880
ILFC (b)	2,109	232	706	816	355
AIG SunAmerica	1,144	228	458	458	--
Other	1,103	532	303	194	74
Total	$15,562	$1,739	$3,932	$1,830	$8,061

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

(b) Primarily in connection with options to acquire aircraft.

Special Purpose Vehicles

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

In the GIC Programs, AIG's life insurance subsidiaries (principally SunAmerica Life Insurance Company) provide guaranteed investment contracts (GICs) to SPVs which are not controlled by AIG. The SPVs issue notes or bonds which are sold to third party institutional investors. Neither AIG nor the insurance company issuing the GICs has any obligation to the investors in the notes or bonds. The proceeds from the securities issued by the SPV are invested by the SPV in the GICs. The insurance company subsidiaries use their proceeds to invest in a diversified portfolio of securities, primarily investment grade bonds (see also the discussion under "Liquidity: Insurance Invested Assets"). Both the assets and the liabilities of the insurance companies arising from these GIC Programs are presented in AIG's consolidated balance sheet. Thus, at December 31, 2002, approximately $29 billion of policyholders' contract deposits represented liabilities from issuances of GICs included in these GIC Programs, offset by the proceeds from the issuances, which are included as insurance invested assets.

AIGFP uses SPVs as an integral part of its ongoing operations with respect to specific structured transactions with independent third parties. In most instances, AIGFP controls and manages the assets and liabilities with respect to these SPVs, subject to certain transaction specific limitations. These SPVs are fully consolidated by AIG (see the discussions of AIGFP under "Operations Review: Financial Services Operations"). AIGFP also sponsors an SPV that issues commercial paper and secured liquidity notes to third-party institutional

investors. This SPV uses the proceeds of these offerings to obtain beneficial
interests in certain financial assets (total assets of approximately $900
million),

which serve as collateral for the securities issued by the SPV. AIGFP provides credit and liquidity support to this SPV, which is not consolidated by AIG.

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

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

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

AIG has established stringent guidelines with respect to the formation of and investment in SPVs. (See also the discussion under "Accounting Standards" herein.)

LIQUIDITY

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

At December 31, 2002, AIG's consolidated invested assets included $8.16 billion of cash and short-term investments. Consolidated net cash provided from operating activities in 2002 amounted to $18.69 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately $40.3 billion in pre-tax cash flow during 2002. 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. AIG's insurance investment operations generated approximately $12.5 billion in investment income cash flow during 2002. 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 "Operational Review: General Insurance Operations" and "Life Insurance 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 would need to liquidate a portion of its general insurance investment portfolio and/or arrange for financing. Potential events causing such a liquidity strain could be the result of several catastrophic events occurring in a relatively short period of time. Additional strain on liquidity could occur if the investments sold to fund such paid losses were sold into a depressed market place and/or reinsurance recoverable on such paid losses became uncollectible or collateral supporting such reinsurance recoverable significantly decreased in value. (See also the discussions under "Operational Review: General Insurance Operations" herein.)

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

In addition to the combined insurance pre-tax operating cash flow, AIG's insurance operations held $6.88 billion in cash and short-term investments at December 31, 2002. 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 $120 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $158 billion of fixed income securities and marketable equity securities during 2002.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

INVESTED ASSETS

THE FOLLOWING TABLE IS A SUMMARY OF AIG'S INVESTED ASSETS BY SIGNIFICANT SEGMENT, INCLUDING INVESTMENT INCOME DUE AND ACCRUED OF $4.30 BILLION AND $3.68 BILLION AND REAL ESTATE OF $3.30 BILLION AND $2.65 BILLION, AT DECEMBER 31, 2002 AND 2001, RESPECTIVELY:

(dollars in millions)

	INVESTED ASSETS	PERCENT OF TOTAL
2002		
GENERAL INSURANCE	$ 55,478	12.8%
LIFE INSURANCE	259,138	59.9
FINANCIAL SERVICES	114,878	26.6
OTHER	2,868	0.7
TOTAL	$432,362	100.0%
2001		
General insurance	$ 43,159	11.8%
Life insurance	213,776	58.6
Financial services	104,295	28.6
Other	3,722	1.0
Total	$364,952	100.0%

INSURANCE INVESTED ASSETS

THE FOLLOWING TABLES SUMMARIZE THE COMPOSITION OF AIG'S INSURANCE INVESTED ASSETS BY INSURANCE SEGMENT, INCLUDING INVESTMENT INCOME DUE AND ACCRUED AND REAL ESTATE, AT DECEMBER 31, 2002 AND 2001:

(dollars in millions)

DECEMBER 31, 2002	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	FOREIGN
FIXED MATURITIES AT MARKET VALUE (a)	$35,990	$206,003	$241,993	76.9%	69.1%	30.9%
EQUITY SECURITIES, AT MARKET VALUE (b)	3,928	2,931	6,859	2.2	53.4	46.6
MORTGAGE LOANS ON REAL ESTATE, POLICY AND COLLATERAL LOANS	35	18,901	18,936	6.0	68.8	31.2
SHORT-TERM INVESTMENTS, INCLUDING TIME DEPOSITS, AND CASH	1,833	5,048	6,881	2.2	42.5	57.5
REAL ESTATE	488	2,367	2,855	0.9	24.8	75.2
INVESTMENT INCOME DUE AND ACCRUED	729	3,489	4,218	1.4	64.2	35.8
SECURITIES LENDING COLLATERAL	7,249	16,445	23,694	7.5	75.8	24.2
OTHER INVESTED ASSETS	5,226	3,954	9,180	2.9	82.1	17.9
TOTAL	$55,478	$259,138	$314,616	100.0%	68.6%	31.4%

(a) Includes $981 million of bond trading securities, at market value.

(b) Includes $1.58 billion of non-redeemable preferred stocks, at market value.

(dollars in millions)

December 31, 2001	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution Domestic	Foreign
Fixed maturities at market value (a)	$29,602	$169,750	$199,352	77.6%	68.8%	31.2%
Equity securities, at market value (b)	4,568	3,139	7,707	3.0	53.9	46.1
Mortgage loans on real estate, policy and collateral loans	58	17,975	18,033	7.0	68.0	32.0
Short-term investments, including time deposits, and cash	1,620	5,287	6,907	2.7	49.3	50.7
Real estate	410	2,106	2,516	1.0	21.5	78.5
Investment income due and accrued	573	3,001	3,574	1.4	63.9	36.1
Securities lending collateral	992	9,581	10,573	4.1	74.9	25.1
Other invested assets	5,336	2,937	8,273	3.2	82.2	17.8
Total	$43,159	$213,776	$256,935	100.0%	68.0%	32.0%

(a) Includes $842 million of bond trading securities, at market value.

(b) Includes $1.72 billion of non-redeemable preferred stocks, at market value.

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

FIXED MATURITY INVESTMENTS

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

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

The fixed maturities held to maturity portfolio were transferred to bonds available for sale, at market value as at January 1, 2001 as permitted and in accordance with the transition provisions of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS 133). (See Note 1(y) of Notes to Financial Statements.)

CREDIT QUALITY

At December 31, 2002, approximately 69 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 10 percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At December 31, 2002, approximately 16 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 11 percent were below investment grade or not rated at that date. A large portion of the foreign insurance fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

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

EQUITY INVESTMENTS

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

VALUATION OF INVESTED ASSETS

The valuation of invested assets involves obtaining a market value for each security. The source for the market value is generally from market exchanges, with the exception of non-traded securities. Another aspect of valuation pertains to impairment.

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 discount to par, amortized cost (if lower) or cost for an extended period of time;

- 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 unlikely that AIG will realize a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Once a security has been identified as potentially impaired, the amount of such impairment is determined by reference to that security's contemporaneous market price. However, the market price following a significant credit event of any issuer may be volatile after such an event. Factors such as market liquidity, hedge fund activity, sensitivity to "headline" risk, and the widening of bid/ask spreads contribute to price volatility. Because of such volatility, the market price may not be indicative of the fair value of such an investment; and consequently, not indicative of a reasonable estimate of realizable value.

AIG has the ability to hold any security to its stated maturity. Therefore, the decision to sell 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.

As a result of these policies, AIG recorded in 2002 impairment losses net of taxes of approximately $795 million, of which $305 million was recognized in the three months ended December 31, 2002.

The most significant impairment charge for any single credit for 2002 was approximately $231 million net of tax with respect to AIG's holdings in WorldCom Inc. (WorldCom). This charge was recorded in the quarter ended June 30, 2002.

Excluding AIG's holdings in WorldCom for 2002, 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 approximately 1.4 percent of consolidated net income for 2002. At December 31, 2002, AIG believes that the circumstances which caused WorldCom's fair value to significantly decline were not characteristic of AIG's other holdings.

AIG measured the impairment charge with respect to WorldCom by reference to the market price of the WorldCom securities as of June 30, 2002.

Excluding the 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 equity as unrealized gains or losses.

At December 31, 2002, the unrealized losses after taxes of the fixed maturity securities were approximately $2.7 billion. At December 31, 2002, the unrealized losses after taxes of the equity securities portfolio were approximately $650 million.

At December 31, 2002, aggregate unrealized gains after taxes were $9.6 billion and aggregate unrealized losses after taxes were $3.4 billion. No single issuer accounted for more than three percent of the unrealized losses.

At December 31, 2002, the fair value of AIG's fixed maturities and equity securities aggregated to approximately $250.4 billion. Of this aggregate fair value, approximately 1.4 percent represented securities trading at or below 75 percent of amortized cost or cost.

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

AT DECEMBER 31, 2002, THE UNREALIZED LOSSES AFTER TAXES FOR FIXED MATURITY SECURITIES AND EQUITY SECURITIES INCLUDED THE FOLLOWING INDUSTRY CONCENTRATIONS:

(in millions)

CONCENTRATION	UNREALIZED LOSSES AFTER TAXES
INVESTMENT GRADE:	
Airline related	$199
Cable and Media	$ 28
Energy	$153
Telecommunications	$ 55
NOT RATED AND BELOW INVESTMENT GRADE:	
Airline related	$131
Cable and Media	$ 76
Energy	$492
Telecommunications	$111

THE AMORTIZED COST OF FIXED MATURITIES AVAILABLE FOR SALE IN AN UNREALIZED LOSS POSITION AT DECEMBER 31, 2002, BY CONTRACTUAL MATURITY, IS SHOWN BELOW:

(in millions)

	AMORTIZED COST
Due in one year or less	$ 1,180
Due after one year through five years	7,096
Due after five years through ten years	12,144
Due after ten years	14,517
Total	$34,937

In the twelve months ended December 31, 2002, the pre-tax realized losses incurred with respect to the sale of fixed maturities and equity securities were $4.1 billion. The aggregate fair value of securities sold was $65.4 billion, which was approximately 94 percent of amortized cost. The average period of time that securities sold at a loss during the quarter and twelve months ended December 31, 2002 were trading continuously at a price below book value was approximately eight months.

THE "AGING" OF PRE-TAX UNREALIZED LOSS POSITIONS AT DECEMBER 31, 2002, IS SHOWN BELOW:

(dollars in millions)

NUMBER OF MONTHS	BOOK VALUE	UNREALIZED LOSSES*	NUMBER OF ITEMS
INVESTMENT GRADE BONDS			
0-6	$16,980	$ 917	1,054
7-12	3,852	275	275
>12	5,455	774	513
BELOW INVESTMENT GRADE BONDS			
0-6	$ 2,397	$ 433	347
7-12	2,404	524	270
>12	3,849	1,234	470
TOTAL BONDS			
0-6	$19,377	$ 1,350	1,401
7-12	6,256	799	545
>12	9,304	2,008	983
EQUITIES			
0-6	$ 1,029	$ 217	536
7-12	1,515	591	469
>12	686	217	341

* 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 acquisition costs.

Note: At December 31, 2002, aggregate pre-tax unrealized gains were $14.7 billion.

As stated previously, the valuation for AIG's investment portfolio comes from a market exchange, with the exception of non-traded securities. AIG considers non-traded 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 December 31, 2002 was approximately $29.6 billion.

The methodology used to estimate fair value of non-traded 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 unrealized appreciation.

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.

Direct private equities, 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 Other comprehensive income.

With respect to hedge funds and limited partnerships in which AIG holds in the aggregate a five percent or greater interest, AIG's carrying value is the net asset value. The changes in such net asset values are recorded in income.

AIG obtains the fair value of its investments in limited partnerships and hedge funds from information provided by the sponsors 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.

MORTGAGE INVESTMENTS

Mortgage loans on real estate, policy and collateral loans comprised 6.0 percent of AIG's insurance invested assets at December 31, 2002. AIG's insurance operations' holdings of real estate mortgages amounted to $11.45 billion of which 86.9 percent was domestic. At December 31, 2002, only a nominal amount was in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At December 31, 2002, AIG's insurance holdings of collateral loans amounted to $1.44 billion, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans increased from $5.79 billion at December 31, 2001 to $6.05 billion at December 31, 2002.

SHORT-TERM INVESTMENTS

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

REAL ESTATE INVESTMENTS

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

OTHER INVESTMENTS

Other invested assets were primarily comprised of limited partnerships and outside managed funds.

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

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

Managing Market Risk

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

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

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

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

Due to the nature of each insurance segment, AIG manages the general and life insurance operations separately.

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

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

THE FOLLOWING TABLE PRESENTS THE VAR ON A COMBINED BASIS AND OF EACH COMPONENT OF MARKET RISK FOR EACH OF AIG'S INSURANCE SEGMENTS AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001. VAR WITH RESPECT TO COMBINED OPERATIONS CANNOT BE DERIVED BY AGGREGATING THE INDIVIDUAL RISK OR SEGMENT AMOUNTS PRESENTED HEREIN.

(in millions)

	GENERAL INSURANCE		LIFE INSURANCE	
	2002	2001	2002	2001
Market Risk:				
Combined	$809	$779	$1,798	$1,804
Interest rate	413	425	1,507	1,631
Currency	66	34	166	134
Equity	798	710	975	627

THE FOLLOWING TABLE PRESENTS THE AVERAGE, HIGH AND LOW VARS ON A COMBINED BASIS AND OF EACH COMPONENT OF MARKET RISK FOR EACH OF AIG'S INSURANCE SEGMENTS AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001.

(in millions)

	2002			2001		
	AVERAGE	HIGH	LOW	Average	High	Low
General Insurance:						
Market Risk:						
Combined	$ 778	$ 863	$ 643	$ 797	$ 837	$ 744
Interest rate	410	425	399	449	464	425
Currency	49	66	34	46	59	34
Equity	740	822	599	741	812	603
Life Insurance:						
Market Risk:						
Combined	$1,876	$1,979	$1,798	$1,572	$1,804	$1,354

Interest rate	1,695	1,874	1,507	1,512	1,631	1,364
Currency	130	166	108	216	373	134
Equity	770	975	627	430	627	332

FINANCIAL SERVICES INVESTED ASSETS

THE FOLLOWING TABLE IS A SUMMARY OF THE COMPOSITION OF AIG'S FINANCIAL SERVICES INVESTED ASSETS AT DECEMBER 31, 2002 AND 2001. (SEE ALSO THE DISCUSSIONS UNDER "OPERATIONAL REVIEW: FINANCIAL SERVICES OPERATIONS", "CAPITAL RESOURCES" AND "DERIVATIVES" HEREIN.)

(dollars in millions)

	2002		2001	
	INVESTED ASSETS	PERCENT OF TOTAL	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	$ 26,867	23.4%	$ 22,710	21.8%
Finance receivables, net of allowance	15,857	13.8	13,955	13.4
Unrealized gain on interest rate and currency swaps, options and forward transactions	15,376	13.4	11,493	11.0
Securities available for sale, at market value	16,687	14.5	17,801	17.1
Trading securities, at market value	4,146	3.6	5,733	5.5
Securities purchased under agreements to resell, at contract value	25,560	22.2	21,638	20.7
Trading assets	4,786	4.2	6,234	6.0
Spot commodities, at market value	489	0.4	352	0.3
Other, including short-term investments	5,110	4.5	4,379	4.2
Total	$114,878	100.0%	$104,295	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 2002, ILFC acquired flight equipment costing $5.30 billion. (See also the discussion under "Operational Review: Financial Services Operations" and "Capital Resources" herein.)

At December 31, 2002, ILFC had committed to purchase 523 aircraft deliverable from 2003 through 2010 at an estimated aggregate purchase price of $29.8 billion and had options to purchase 18 aircraft deliverable from 2003 through 2008 at an estimated aggregate purchase price of $1.3 billion. Subsequent to December 31, 2002, ILFC cancelled delivery of four of the 523 aircraft. As of March 20, 2003, ILFC has entered into leases for 86 of 90 aircraft to be delivered in 2003 and 49 of 82 aircraft to be delivered in 2004 and 26 of 347 aircraft to be delivered subsequent to 2004. ILFC will be required to find customers for any aircraft presently on order and any aircraft to be ordered, and it must arrange financing for portions of the purchase price of such equipment. In a rising interest rate environment, ILFC negotiates higher lease rates on any new contracts. ILFC has been successful to date both in placing its new aircraft on lease or under sales contract and obtaining adequate financing, but there can be no assurance that such success will continue in future environments.

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 December 31, 2002 and December 31, 2001, AIG statistically measured the loss of fair value through the application of a VaR model. In this analysis, the net fair value of ILFC was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue and the financial instrument liabilities which included the future servicing of the current debt. The estimated impact of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of ILFC using the historical simulation methodology, as previously described. As of December 31, 2002 and December 31, 2001, the VaR with respect to the net fair value of ILFC was approximately $20 million and $10 million, respectively.

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

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

AIGFP's derivative transactions are carried at market value or at estimated fair value when market prices are not readily available. AIGFP reduces its economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. The estimated fair values of these transactions represent assessments of the present value of expected future cash flows. These transactions are exposed to liquidity risk if AIGFP were required to sell or close out the transactions prior to maturity. AIG believes that the impact of any such limited

liquidity would not be significant to AIG's financial condition or its overall liquidity. (See also the discussion under "Operational Review: Financial Services Operations" and "Derivatives" herein.)

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

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At December 31, 2002, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with $66 million of these securities. Securities deemed below investment grade at December 31, 2002 amounted to approximately $100 million in fair value representing 0.6 of one percent of the total AIGFP securities available for sale. $30 million of this amount is hedged with a credit derivative. There have been no significant downgrades through March 1, 2003. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

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

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

THE GROSS UNREALIZED GAINS AND GROSS UNREALIZED LOSSES OF AIGFP AND AIGTG INCLUDED IN THE FINANCIAL SERVICES ASSETS AND LIABILITIES AT DECEMBER 31, 2002 WERE AS FOLLOWS:

(in millions)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value (a)	$ 761	$ 789
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions (b) (c)	15,376	11,265
Trading assets	9,271	7,685
Spot commodities, at market value	--	13
Trading liabilities	--	1,602
Securities and spot commodities sold but not yet purchased, at market value	--	204

(a) See also Note 8(e) of Notes to Financial Statements.

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

(c) At December 31, 2002, AIGTG's replacement values with respect to interest rate and currency swaps were $440 million.

AIGFP's interest rate and currency risks on securities available for sale, at market, are managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At December 31, 2002, the unrealized gains and losses remaining after the benefit of the offsets were $62 million and $90 million, respectively.

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

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

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

Managing Market Risk

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

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

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

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

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

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

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

As part of its monitoring and controlling of its exposure to market risk, AIGFP applies various testing techniques which reflect potential market movements. These techniques vary by currency and are regularly changed to reflect factors affecting the derivatives portfolio. In addition to the daily monitoring, AIGFP's senior management and local risk managers conduct a weekly review of the derivatives portfolio and existing hedges. This review includes an examination of the portfolio's risk measures, such as aggregate option sensitivity to movements in market variables. AIGFP's management may change these measures to reflect

their judgment and evaluation of the dynamics of the markets. This management group will also determine whether additional or alternative action is required in order to manage the portfolio.

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

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

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

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

A significant portion of AIGTG's business is transacted in liquid markets. Certain of AIGTG's derivative product exposures are evaluated using simulation techniques which consider such factors as changes in currency and commodity prices, interest rates, volatility levels, market liquidity and the effect of time.

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

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

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

THE FOLLOWING TABLE PRESENTS THE VAR ON A COMBINED BASIS AND OF EACH COMPONENT OF AIGFP'S AND AIGTG'S MARKET RISK AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001. VAR WITH RESPECT TO COMBINED OPERATIONS CANNOT BE DERIVED BY AGGREGATING THE INDIVIDUAL RISK PRESENTED HEREIN.

(in millions)

	AIGFP (A)		AIGTG (B)	
	2002	2001	2002	2001
Market Risk:				
Combined	$ 4	$12	$ 2	$ 2
Interest rate	4	12	2	2
Currency	--	--	--	1
Equity	1	1	--	--

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

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

THE FOLLOWING TABLE PRESENTS THE AVERAGE, HIGH AND LOW VARS ON A COMBINED BASIS AND OF EACH COMPONENT OF AIGFP'S AND AIGTG'S MARKET RISK AS OF DECEMBER 31, 2002 AND 2001.

(in millions)

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

DERIVATIVES

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

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

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

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

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

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

Counterparty Credit Quality

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

The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss after the application of netting under ISDA Master Agreements and excluding collateral held. Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all interest rate, currency and equity swaps, swaptions and forward commitments approximated $14.98 billion at December 31, 2002, including $1.9 billion of collateral held; and $10.84 billion at December 31, 2001. The net replacement value for futures and forward contracts approximated $110 million at December 31, 2002 and $64 million at December 31, 2001.

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or, where such ratings are not available, by internal analysis. At December 31, 2002 and December 31, 2001, the concentration of credit exposure with respect to counterparties judged A or higher by AIGFP was 92 percent and 93 percent, respectively.

THE COUNTERPARTY CREDIT QUALITY DETERMINED BY AIGFP BY DERIVATIVE PRODUCT WITH RESPECT TO THE NET REPLACEMENT VALUE OF AIGFP'S DERIVATIVES PORTFOLIO WAS AS FOLLOWS:

(in millions)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 2002	Total 2001
Counterparty credit quality:				
AAA	$ 7,082	$ 95	$ 7,177	$ 4,388
AA	3,856	15	3,871	3,214
A	2,887	--	2,887	2,498
BBB	1,120	--	1,120	784
Below investment grade	35	--	35	23
Total	$14,980	$ 110	$15,090	$10,907

AT DECEMBER 31, 2002 AND DECEMBER 31, 2001, THE COUNTERPARTY BREAKDOWN BY INDUSTRY WITH RESPECT TO THE NET REPLACEMENT VALUE OF AIGFP'S DERIVATIVES PORTFOLIO WAS AS FOLLOWS:

(in millions)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 2002	Total 2001
Non-U.S. banks	$ 3,310	$ --	$ 3,310	$ 2,464
Insured municipalities	925	--	925	638
U.S. industrials	2,773	--	2,773	2,113
Governmental	520	--	520	563
Non-U.S. financial service companies	474	--	474	428
Non-U.S. industrials	1,452	--	1,452	1,289
Special purpose	3,252	--	3,252	1,851
U.S. banks	416	15	431	72
U.S. financial service companies	1,846	95	1,941	1,211
Supranationals	12	--	12	278
Total	$14,980	$ 110	$15,090	$10,907

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

Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps was $2.29 billion and $3.05 billion at December 31, 2002 and December 31, 2001, respectively.

AIGTG'S NET REPLACEMENT VALUE AT DECEMBER 31, 2002 AND 2001 WAS AS FOLLOWS:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	Total 2001
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	$ 5,678	$ 2,861	$ 2,735	$ 46	$ 11,320	$ 10,074
Master netting arrangements	(3,895)	(2,286)	(2,563)	(32)	(8,776)	(6,691)
Collateral	(85)	(96)	(63)	(8)	(252)	(330)
Net replacement value*	$ 1,698	$ 479	$ 109	$ 6	$ 2,292	$ 3,053

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

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or, where such ratings are not available, internal analysis. At December 31, 2002 and December 31, 2001, the concentration of credit exposure with respect to counterparties judged A or higher by AIGTG was 75 percent and 78 percent, respectively.

ALSO, AS OF DECEMBER 31, 2002 AND 2001, THE COUNTERPARTY CREDIT QUALITY AND COUNTERPARTY BREAKDOWN BY INDUSTRY WITH RESPECT TO THE NET REPLACEMENT VALUE OF AIGTG'S DERIVATIVES PORTFOLIO WERE AS FOLLOWS:

(in millions)

	NET REPLACEMENT VALUE	
	2002	2001
Counterparty credit quality:		
AAA	$ 347	$ 391
AA	622	1,117
A	739	863
BBB	193	330
Below investment grade	63	130
Not externally rated, including exchange traded futures and options*	328	222
Total	$2,292	$3,053
Counterparty breakdown by industry:		
Non U.S. banks	$ 927	$1,151
U.S. industrials	369	503
Governmental	37	71
Non-U.S. financial service companies	105	187
Non-U.S. industrials	144	190
U.S. banks	157	353
U.S. financial service companies	225	376
Exchanges*	328	222
Total	$2,292	$3,053

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

Fair Value Source

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

AT DECEMBER 31, 2002 AND DECEMBER 31, 2001, THE FAIR VALUE SOURCE OF THE NET REPLACEMENT VALUE OF AIGTG'S DERIVATIVES PORTFOLIO WAS AS FOLLOWS:

(in millions)

	MATURITY OF FAIR VALUE OF CONTRACTS					
SOURCE OF FAIR VALUE	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	TOTAL 2001
Prices actively quoted	$1,698	$ --	$ --	$ --	$1,698	$2,412
Prices provided by other external sources	--	357	--	--	357	530
Prices based on models and other valuation methods	--	122	109	6	237	111
Total	$1,698	$ 479	$ 109	$ 6	$2,292	$3,053

Notional Amounts

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

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

THE FOLLOWING TABLE PRESENTS THE CONTRACTUAL AND NOTIONAL AMOUNTS BY MATURITY AND TYPE OF DERIVATIVE OF AIGFP'S DERIVATIVES PORTFOLIO AT DECEMBER 31, 2002 AND DECEMBER 31, 2001.

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	Total 2001
AIGFP interest rate, currency and equity swaps and swaptions:						
Notional amount:*						
Interest rate swaps	$147,331	$289,463	$128,118	$ 15,082	$579,994	$436,669
Currency swaps	47,120	80,486	42,945	6,436	176,987	139,174
Swaptions and equity swaps	20,672	26,169	9,111	4,484	60,436	58,491
Total	$215,123	$396,118	$180,174	$ 26,002	$817,417	$634,334
Exchange traded futures contracts contractual amount	$ 10,524	$ --	$ --	$ --	$ 10,524	$ 10,036
Over the counter forward contracts contractual amount	$ 43,220	$ 220	$ 187	$ --	$ 43,627	$ 58,003

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

AIGFP enters into credit derivative transactions in the ordinary course of its business. The overwhelming majority of AIGFP's credit derivatives require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. AIGFP provides such credit protection only on a "second loss" basis, under which AIGFP's payment obligations arise only after credit losses in the designated portfolio exceed a specified threshold amount or level of "first losses." The threshold amount of credit losses that must be realized before AIGFP has any payment obligation is negotiated by AIGFP for each transaction to provide that the likelihood of any payment obligation by AIGFP under each transaction is remote, even in severe recessionary market scenarios.

In many cases, the credit risk associated with a designated portfolio is tranched into different layers of risk, which are then analyzed and rated by the credit rating agencies. Typically, there will be an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers that are rated, generally a BBB rated layer, an A rated layer, an AA rated layer and an AAA rated layer. In transactions that are rated, the risk layer or tranche that is immediately junior to the threshold level above which AIGFP's payment obligation would arise is rated AAA by the rating agencies. For that reason, the risk layer assumed by AIGFP with respect to the designated portfolio in these transactions is often called the "super senior" risk layer, defined as the layer of credit risk senior to a risk layer that has been rated AAA by the credit rating agencies or if the transaction is not rated, equivalent thereto. For example, in a transaction with an equity layer covering credit losses from 0 to 2 percent of the total portfolio, a BBB rated layer covering credit losses from 2 to 4 percent, an A rated layer from 4 to 6 percent, an AA rated layer from 6 to 8 percent and an AAA rated layer from 8 to 11 percent, AIGFP would cover credit losses arising in

respect of the portfolio that exceed an 11 percent first loss threshold amount, and thereby bear risk that is senior to the 8 to 11 percent AAA rated risk layer.

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AIGFP continually monitors the underlying portfolios to determine whether the credit loss experience for any particular portfolio has caused the likelihood of AIGFP having a payment obligation under the transaction to be greater than super senior risk. AIGFP maintains the ability opportunistically to hedge specific securities in a portfolio thereby further limiting its exposure to loss and has hedged outstanding transactions in this manner on occasion. AIGFP has never had a payment obligation under these credit derivatives transactions. Furthermore, based on portfolio credit losses experienced to date under all outstanding transactions, no transaction has experienced credit losses in an amount that has made the likelihood of AIGFP having to make a payment, in AIGFP's view, to be greater than remote, even in severe recessionary market scenarios. At December 31, 2002 the notional amount with respect to AIGFP's credit derivative portfolio was $125.7 billion.

THE FOLLOWING TABLE PROVIDES THE CONTRACTUAL AND NOTIONAL AMOUNTS BY MATURITY AND TYPE OF DERIVATIVE OF AIGTG'S DERIVATIVES PORTFOLIO AT DECEMBER 31, 2002 AND DECEMBER 31, 2001.

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	Total 2001
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 11,834	$ 1,451	$ 50	$ --	$ 13,335	$ 14,977
Over the counter forwards	$168,572	$ 13,562	$ 1,977	$ 36	$184,147	$184,102
Over the counter purchased options	$ 72,800	$ 17,657	$ 25,053	$ 252	$115,762	$138,655
Over the counter sold options (a)	$ 69,247	$ 16,771	$ 25,255	$ 401	$111,674	$137,661
Notional amount (b)						
Interest rate swaps and forward rate agreements	$ 16,440	$ 33,866	$ 4,613	$ 140	$ 55,059	$ 59,683
Currency swaps	2,351	5,866	327	--	8,544	11,092
Swaptions	3,608	5,789	1,118	--	10,515	7,280
Total	$ 22,399	$ 45,521	$ 6,058	$ 140	$ 74,118	$ 78,055

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

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

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

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

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

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

Legal risk arises from the uncertainty of the enforceability, through legal or judicial processes, of the obligations of AIG's clients and counterparties, including contractual provisions intended to reduce credit exposure by providing for the netting of mutual obligations. (See also the discussion on master netting agreements above.)

ACCOUNTING STANDARDS

In June 2001, FASB issued Statement of Financial Accounting Standard No. 141 "Business Combinations" (FAS 141). FAS 141 requires AIG to apply the purchase method of accounting for all acquisitions initiated after June 30, 2001.

In June 2001, FASB issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (FAS 142). As of January 1, 2002, AIG adopted FAS 142. FAS 142 requires AIG to discontinue the amortization of

goodwill in its consolidated income statement. Amortization

expense recorded in AIG's consolidated statement of income amounted to $163 million and $98 million pre-tax for 2001 and 2000, respectively.

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

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

In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN45). FIN45 requires that, for guarantees within its scope that are issued or amended after December 31, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee be established, and recognized through earnings. FIN45 also requires additional disclosures in financial statements starting with AIG's 2002 year-end financial statements.

AIG believes that the impact of FIN45 on its results of operations and financial condition will not be significant.

AIG guarantees the indebtedness of third parties principally in connection with AIG SunAmerica's investments in affordable housing properties. The guarantees are issued primarily to facilitate financing for the construction of the underlying properties, and range in duration of up to ten years. The loans are secured by the underlying real estate. Since the inception of this investment program over ten years ago, payments under these guarantees have been insignificant. This is due to the fact that the loans are first backed by the creditworthiness of the third party general partner, and secondly, are secured by the underlying properties. The maximum exposure under these guarantees as of December 31, 2002 is approximately $4.2 billion.

In addition, AIG's real estate investment operations will occasionally extend guarantees to real estate partnerships in which they are an investor. The guarantees facilitate financing for the construction, and/or purchase of land. There have been no payments to date under these guarantees. This is due to the fact that the loans are first backed by the creditworthiness of the third party general partner, and secondly, are secured by the underlying properties. The maximum exposure under these guarantees as of December 31, 2002 is approximately $130 million.

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN46). FIN46 changes the method of determining whether certain entities should be consolidated in AIG's consolidated financial statements. An entity is subject to FIN46 and is called a variable interest entity (VIE) if it has (i) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for consolidation under existing guidance. A VIE is consolidated by its primary beneficiary, which is the party that has a majority of the expected losses or a majority of the expected residual returns of the VIE, or both.

The provisions of FIN46 are to be applied immediately to VIEs created after January 31, 2003, and to VIEs in which AIG obtains an interest after that date. For VIEs in which AIG holds a variable interest that it acquired before February 1, 2003, FIN46 applies to the fiscal quarter ended September 30, 2003. For any VIE that must be consolidated under FIN46 that was created before February 1, 2003, the assets, liabilities and noncontrolling interest of the VIE would be initially measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change.

AIG is currently evaluating the impact of applying FIN46 to existing VIEs in which it has a variable interest, and believes that the impact on its results of operations and financial condition will not be significant. (See also the discussions under Note 20 of Notes to Financial Statements and "Special Purpose Vehicles" included herein.)

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. Financial Statements and Supplementary Data

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES INDEX TO FINANCIAL STATEMENTS AND SCHEDULES

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The Board of Directors and Shareholders
American International Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the consolidated financial position of American International Group, Inc. and subsidiaries (the "Company") at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
February 12, 2003

CONSOLIDATED BALANCE SHEET

(in millions)

DECEMBER 31,	2002	2001
ASSETS:		
Investments, financial services assets and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2002 - $232,121; 2001 - $196,111)	$242,385	$199,774
Bond trading securities, at market value (cost: 2002 - $963; 2001 - $844)	981	842
Equity securities:		
Common stocks (cost: 2002 - $6,152; 2001 - $6,963)	5,482	6,188
Non-redeemable preferred stocks (cost: 2002 - $1,678; 2001 - $1,840)	1,584	1,749
Mortgage loans on real estate, net of allowance (2002 - $110; 2001 - $114)	11,541	10,774
Policy loans	6,046	5,786
Collateral and guaranteed loans, net of allowance (2002 - $54; 2001 - $23)	2,341	2,407
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2002 - $4,426; 2001 - $3,492)	26,867	22,710
Securities available for sale, at market value (cost: 2002 - $16,715; 2001 - $17,793)	16,687	17,801
Trading securities, at market value	4,146	5,733
Spot commodities, at market value	489	352
Unrealized gain on interest rate and currency swaps, options and forward transactions	15,376	11,493
Trading assets	4,786	6,234
Securities purchased under agreements to resell, at contract value	25,661	21,681
Finance receivables, net of allowance (2002 - $477; 2001 - $532)	15,857	13,955
Securities lending collateral	23,694	10,574
Other invested assets	12,680	12,704
Short-term investments, at cost (approximates market value)	6,993	7,168
Cash	1,165	698
Total investments, financial services assets and cash	424,761	358,623
Investment income due and accrued	4,297	3,681
Premiums and insurance balances receivable, net of allowance (2002 - $150; 2001 - $127)	13,088	12,412
Reinsurance assets, net of allowances	29,882	27,199
Deferred policy acquisition costs	22,256	19,357
Investments in partially-owned companies	1,575	902
Real estate and other fixed assets, net of accumulated depreciation (2002 - $3,727; 2001 - $3,532)	5,382	4,833
Separate and variable accounts	46,248	51,954
Goodwill	6,079	6,102
Other assets	7,661	7,998
TOTAL ASSETS	$561,229	$493,061

See Accompanying Notes to Financial Statements.

CONSOLIDATED BALANCE SHEET (CONTINUED)

(in millions, except share amounts)

DECEMBER 31,	2002	2001
LIABILITIES:		
Reserve for losses and loss expenses	$ 51,539	$ 44,792
Reserve for unearned premiums	16,336	13,148
Future policy benefits for life and accident and health insurance contracts	72,547	64,998
Policyholders' contract deposits	142,160	119,402
Other policyholders' funds	7,582	7,611
Reserve for commissions, expenses and taxes	3,429	3,381
Insurance balances payable	3,273	3,207
Funds held by companies under reinsurance treaties	3,425	2,685
Income taxes payable:		
Current	793	405
Deferred	4,289	2,881
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	14,850	16,392
Securities sold under agreements to repurchase, at contract value	9,162	11,818
Trading liabilities	3,825	4,372
Securities and spot commodities sold but not yet purchased, at market value	11,765	8,331
Unrealized loss on interest rate and currency swaps, options and forward transactions	11,265	8,813
Trust deposits and deposits due to banks and other depositors	2,987	2,290
Commercial paper	7,467	8,523
Notes, bonds, loans and mortgages payable	43,233	33,676
Commercial paper	1,645	3,369
Notes, bonds, loans and mortgages payable	4,690	3,771
Separate and variable accounts	46,248	51,954
Minority interest	1,580	1,509
Securities lending payable	23,694	10,574
Other liabilities	12,189	10,807
TOTAL LIABILITIES	499,973	438,709
PREFERRED SHAREHOLDERS' EQUITY IN SUBSIDIARY COMPANIES	2,153	2,202
Capital funds:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2002 - 2,751,327,476; 2001 - 2,750,237,554	6,878	6,876
Additional paid-in capital	607	669
Retained earnings	52,270	47,218
Accumulated other comprehensive income (loss)	691	(1,725)
Treasury stock, at cost; 2002 - 141,726,645; 2001 - 134,805,555 shares of common stock (including 119,244,379 and 133,200,400 shares, respectively, held by subsidiaries)	(1,343)	(888)
TOTAL CAPITAL FUNDS	59,103	52,150
TOTAL LIABILITIES, PREFERRED SHAREHOLDERS' EQUITY IN SUBSIDIARY COMPANIES AND CAPITAL FUNDS	$ 561,229	$ 493,061

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	2002	2001	2000
REVENUES:			
Premiums and other considerations	$ 44,589	$ 38,428	$ 34,570
Net investment income	15,034	13,977	12,663
Realized capital gains (losses)	(2,441)	(836)	(314)
Other revenues	10,300	10,197	9,419
TOTAL REVENUES	67,482	61,766	56,338
BENEFITS AND EXPENSES:			
Incurred policy losses and benefits	41,927	35,054	30,864
Insurance acquisition and other operating expenses	17,413	16,556	15,136
Acquisition, restructuring and related charges	--	2,017	315
TOTAL BENEFITS AND EXPENSES	59,340	53,627	46,315
INCOME BEFORE INCOME TAXES, MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	8,142	8,139	10,023
INCOME TAXES:			
Current	1,972	1,919	1,697
Deferred	356	420	1,274
	2,328	2,339	2,971
INCOME BEFORE MINORITY INTEREST AND CUMULATIVE EFFECT OF ACCOUNTING CHANGES	5,814	5,800	7,052
MINORITY INTEREST	(295)	(301)	(413)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGES	5,519	5,499	6,639
CUMULATIVE EFFECT OF ACCOUNTING CHANGES, NET OF TAX	--	(136)	--
NET INCOME	$ 5,519	$ 5,363	$ 6,639
EARNINGS PER COMMON SHARE:			
Basic			
Income before cumulative effect of accounting changes	$ 2.11	$ 2.10	$ 2.55
Cumulative effect of accounting changes	--	(0.05)	--
Net income	2.11	2.05	2.55
Diluted			
Income before cumulative effect of accounting changes	$ 2.10	$ 2.07	$ 2.52
Cumulative effect of accounting changes	--	(0.05)	--
Net income	2.10	2.02	2.52
AVERAGE SHARES OUTSTANDING:			
Basic	2,612	2,621	2,607
Diluted	2,634	2,650	2,638

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CAPITAL FUNDS

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	2002	2001	2000
COMMON STOCK:			
Balance at beginning of year	$ 6,876	$ 6,914	$ 4,870
Issuance of common stock	--	--	7
Adjustment in connection with AGC acquisition	--	(43)	--
Stock split effected as dividend	--	--	2,037
Issued under stock option and stock purchase plans	2	5	--
Balance at end of year	6,878	6,876	6,914
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	669	2,830	2,324
Issuance of common stock	--	--	(7)
Excess of cost over proceeds of common stock issued under stock option and stock purchase plans	(94)	2	(161)
Excess of proceeds over cost of common stock issued in connection with acquisitions	--	--	616
Conversion of preferred stock and preferred securities	--	--	(83)
Adjustment in connection with AGC acquisition	5	(2,135)	--
Other	27	(28)	141
Balance at end of year	607	669	2,830
RETAINED EARNINGS:			
Balance at beginning of year	47,218	42,598	38,772
Net income	5,519	5,363	6,639
Stock dividends to shareholders	--	--	(2,037)
Cash dividends to shareholders:			
Preferred	--	--	(1)
Common ($.18, $.16 and $.14 per share, respectively)	(467)	(743)	(775)
Balance at end of year	52,270	47,218	42,598
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Balance at beginning of year	(1,725)	(2,440)	(3,381)
Unrealized appreciation of investments - net of reclassification adjustments	4,727	1,513	1,467
Deferred income tax expense on changes	(1,579)	(500)	(316)
Foreign currency translation adjustments	(419)	(455)	(273)
Applicable income tax benefit on changes	38	111	63
Net derivative losses arising from cash flow hedging activities	(479)	(541)	--
Deferred income tax benefit on changes	186	98	--
Cumulative effect of accounting change, net of tax	--	489	--
Retirement plan liabilities adjustment, net of tax	(58)	--	--
Other comprehensive income	2,416	715	941
Balance at end of year	691	(1,725)	(2,440)
TREASURY STOCK, AT COST:			
Balance at beginning of year	(888)	(2,463)	(2,944)
Cost of shares acquired during year	(734)	(1,042)	(1,407)
Issued under stock option and stock purchase plans	260	271	343
Issued for conversion of preferred stock and preferred securities	--	--	418
Issued in connection with acquisitions	--	--	1,127
Adjustment in connection with AGC acquisition	--	2,311	--
Other	19	35	--
Balance at end of year	(1,343)	(888)	(2,463)
TOTAL CAPITAL FUNDS AT END OF YEAR	$ 59,103	$ 52,150	$ 47,439

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
SUMMARY:			
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,688	$ 8,362	$ 9,081
NET CASH USED IN INVESTING ACTIVITIES	(46,598)	(31,298)	(20,828)
NET CASH PROVIDED BY FINANCING ACTIVITIES	28,377	23,112	11,843
CHANGE IN CASH	467	176	96
CASH AT BEGINNING OF YEAR	698	522	426
CASH AT END OF YEAR	$ 1,165	$ 698	$ 522
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,519	$ 5,363	$ 6,639
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Non-cash revenues, expenses, gains and losses included in income:			
Change in:			
General and life insurance reserves	16,725	7,405	7,928
Premiums and insurance balances receivable and payable - net	(744)	588	1,016
Reinsurance assets	(2,683)	(4,590)	(3,657)
Deferred policy acquisition costs	(3,850)	(1,104)	(1,465)
Investment income due and accrued	(616)	(124)	(346)
Funds held under reinsurance treaties	740	1,228	572
Other policyholders' funds	(29)	727	239
Current and deferred income taxes - net	745	648	1,408
Reserve for commissions, expenses and taxes	48	55	68
Other assets and liabilities - net	1,300	836	(1,068)
Trading assets and liabilities - net	901	831	(721)
Trading securities, at market value	1,587	1,614	(2,956)
Spot commodities, at market value	(137)	11	320
Net unrealized (gain) loss on interest rate and currency swaps, options and forward transactions	(1,431)	(1,026)	(2,347)
Securities purchased under agreements to resell	(3,980)	(6,690)	(4,094)
Securities sold under agreements to repurchase	(2,656)	510	5,192
Securities and spot commodities sold but not yet purchased, at market value	3,434	630	1,288
Realized capital gains (losses)	2,441	836	314
Equity in income of partially-owned companies and other invested assets	(229)	(479)	(327)
Amortization of premium and discount on securities	(195)	(285)	(269)
Depreciation expenses, principally flight equipment	1,653	1,437	1,243
Change in cumulative translation adjustments	(405)	(439)	(273)
Provision for finance receivable losses	402	395	307
Other - net	148	(15)	70
Total adjustments	13,169	2,999	2,442
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,688	$ 8,362	$ 9,081

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cost of fixed maturities, at amortized cost matured or redeemed	$ --	$ --	$ 1,227
Cost of bonds, at market sold	99,777	94,825	37,700
Cost of bonds, at market matured or redeemed	13,666	14,403	7,359
Cost of equity securities sold	6,509	6,321	5,162
Realized capital gains (losses)	(2,441)	(836)	(314)
Purchases of fixed maturities	(149,537)	(132,961)	(58,001)
Purchases of equity securities	(5,955)	(6,619)	(6,085)
Acquisitions, net of cash acquired	--	(383)	(17)
Mortgage, policy and collateral loans granted	(2,867)	(2,037)	(2,341)
Repayments of mortgage, policy and collateral loans	2,011	1,392	2,106
Sales of securities available for sale	4,382	5,816	5,588
Maturities of securities available for sale	3,882	2,303	1,559
Purchases of securities available for sale	(7,134)	(11,264)	(8,890)
Sales of flight equipment	184	220	713
Purchases of flight equipment	(5,302)	(4,415)	(3,432)
Net additions to real estate and other fixed assets	(924)	(700)	(1,033)
Sales or distributions of other invested assets	12,182	4,298	4,397
Investments in other invested assets	(12,423)	(5,531)	(6,285)
Change in short-term investments	175	5,434	1,314
Investments in partially-owned companies	(479)	(541)	79
Finance receivable originations and purchases	(10,066)	(8,774)	(7,812)
Finance receivable principal payments received	7,762	7,751	6,346
Other - net	--	--	(168)
NET CASH USED IN INVESTING ACTIVITIES	$ (46,598)	$ (31,298)	$ (20,828)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in policyholders' contract deposits	$ 22,758	$ 13,943	$ 5,451
Change in trust deposits and deposits due to banks and other depositors	697	395	(280)
Change in commercial paper	(2,421)	(1,156)	2,222
Proceeds from notes, bonds, loans and mortgages payable	21,896	27,347	12,212
Repayments on notes, bonds, loans and mortgages payable	(11,950)	(17,597)	(10,770)
Proceeds from guaranteed investment agreements	7,167	10,410	9,957
Maturities of guaranteed investment agreements	(8,709)	(7,613)	(5,792)
Redemption of subsidiary company preferred stock	(50)	(1,248)	--
Proceeds from common stock issued	168	239	144
Proceeds from subsidiary company issuance of preferred stock	--	--	742
Cash dividends to shareholders	(467)	(743)	(776)
Acquisition of treasury stock	(734)	(1,042)	(1,402)
Other - net	22	177	135
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 28,377	$ 23,112	$ 11,843
SUPPLEMENTARY INFORMATION:			
TAXES PAID	$ 1,203	$ 1,475	$ 1,345
INTEREST PAID	$ 3,590	$ 3,950	$ 3,524

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
COMPREHENSIVE INCOME:			
Net income	$ 5,519	$ 5,363	$ 6,639
OTHER COMPREHENSIVE INCOME:			
Unrealized appreciation of investments - net of reclassification adjustments	4,727	1,513	1,467
Deferred income tax expense on above changes	(1,579)	(500)	(316)
Foreign currency translation adjustments (a)	(419)	(455)	(273)
Applicable income tax benefit on above changes	38	111	63
Net derivative losses arising from cash flow hedging activities	(479)	(541)	--
Deferred income tax benefit on above changes	186	98	--
Retirement plan liabilities adjustment, net of tax	(58)	--	--
Cumulative effect of accounting change, net of tax (b)	--	150	--
Cumulative effect of accounting change, net of tax (c)	--	339	--
OTHER COMPREHENSIVE INCOME	2,416	715	941
COMPREHENSIVE INCOME	$ 7,935	$ 6,078	$ 7,580

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

(b) Consists of derivative gains and losses qualifying for cash flow hedging arising from the adoption of Statement of Financial Accounting Standards No. 138 "Accounting for Derivative Instruments and Hedging Activities -- an amendment of FASB Statement No. 133" (collectively, FAS 133).

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

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION: On August 29, 2001 American General Corporation (AGC), was acquired by American International Group, Inc.(AIG). In connection with the acquisition, AIG issued approximately 290 million shares of its common stock in exchange for all the outstanding common stock of AGC based on an exchange ratio of 0.5790 of a share of AIG common stock for each share of AGC common stock. The acquisition was accounted for as a pooling of interests and the accompanying financial statements have been prepared to retroactively combine AGC's financial statements with AIG's financial statements for all periods presented.

All of the share information included herein reflects the application of the exchange ratio to the number of shares of AGC common stock outstanding at the relevant times rather than the number of shares of AIG common stock actually issued or outstanding at such times. In addition, AGC convertible preferred stock has been included based on its AGC common stock equivalent in the restated capital accounts.

THE FOLLOWING IS A RECONCILIATION OF THE INDIVIDUAL COMPANY RESULTS TO THE COMBINED RESULTS FOR 2000:

(in millions)

	AIG	AGC	Total
Revenues	$45,245	$11,093	$56,338
Net income	5,636	1,003	6,639

AIG subsidiaries write property, casualty, marine, life and financial lines insurance in approximately 130 countries and jurisdictions. Certain of AIG's foreign subsidiaries included in the consolidated financial statements report on a fiscal year ending November 30. The consolidated financial statements include the accounts of AIG and its majority owned subsidiaries. All material intercompany accounts and transactions have been eliminated.

HSB Group, Inc. (HSB) was acquired on November 22, 2000 and consolidated into AIG's financial statements during the fourth quarter of 2000. This acquisition was accounted for as a purchase.

(B) BASIS OF PRESENTATION: The accompanying financial statements have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain accounts have been reclassified in the 2001 and 2000 financial statements to conform to their 2002 presentation.

General Insurance Operations: AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance. Premiums are earned primarily on a pro rata basis over the term of the related coverage. The reserve for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Acquisition costs represent those costs, including commissions, that vary with and are primarily related to the acquisition of new business. These costs are deferred and amortized over the period in which the related premiums written are earned. The deferred acquisition cost (DAC) asset is reviewed for recoverability based on the profitability of the underlying insurance contracts. Investment income is not anticipated in the deferral of acquisition costs.

Losses and loss expenses are charged to income as incurred. The reserve for losses and loss expenses represents the accumulation of estimates for reported losses and includes provisions for losses incurred but not reported. The methods of determining such estimates and establishing resulting reserves, including amounts relating to reserves for estimated unrecoverable reinsurance, are reviewed and updated. Adjustments resulting therefrom are reflected in income currently. AIG discounts certain of its loss reserves which are primarily related to certain workers' compensation claims. (See Note 6.)

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

Premiums for traditional life insurance products and life contingent annuities, excluding accident and health products, are recognized as revenues when due. Estimates for premiums due but not yet collected are accrued. Benefits and expenses are provided against such revenues to recognize profits over the estimated life of the policies. Revenues for universal life and investment-type products consist of policy charges for the cost of insurance, administration and surrenders during the period. Policy charges collected with respect to future services are deferred and recognized in a manner similar to the deferred policy acquisition costs related to such products. Expenses include interest credited to policy account balances and benefit payments made in excess of policy account balances. Accident and health products are accounted for in a manner similar to general insurance products described above. Investment income reflects certain

amounts of realized capital gains where the gains are deemed to be an inherent element in pricing certain life products in some foreign countries.

Policy acquisition costs for traditional life insurance products are generally deferred and amortized over the premium paying period of the policy. Policy acquisition costs

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and policy initiation costs related to universal life and investment-type products (non-traditional products) are deferred and amortized, with interest, in relation to the incidence of estimated gross profits to be realized over the estimated lives of the contracts. Estimated gross profits are composed of net interest income, net realized investment gains and losses, variable annuity fees, surrender charges and direct administrative expenses.

The resulting DAC asset is reviewed for recoverability based on the profitability (both current and projected future) of the underlying insurance contracts.

The deferred acquisition costs with respect to non-traditional products are adjusted with respect to estimated gross profits as a result of changes in the net unrealized gains or losses on debt and equity securities available for sale. That is, as debt and equity securities available for sale are carried at aggregate fair value, an adjustment is made to deferred policy acquisition costs equal to the change in amortization that would have been recorded if such securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. The change in this adjustment, net of tax, is included with the change in net unrealized gains/losses on debt and equity securities available for sale that is credited or charged directly to comprehensive income. Deferred policy acquisition costs have been decreased by $1.23 billion at December 31, 2002 and decreased by $280 million at December 31, 2001 for this adjustment. (See Note 4.)

The liabilities for future policy benefits and policyholders' contract deposits are established using assumptions described in Note 6.

Financial Services Operations: AIG participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIG also enters into structured transactions, including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements, and invests in a diversified portfolio of securities.

AIG engages in market making and trading activities, as principal, in foreign exchange, interest rates and precious and base metals. AIG 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.

AIG, as lessor, leases flight equipment principally under operating leases. Accordingly, income is recognized over the life of the lease as rentals become receivable under the provisions of the lease or, in the case of leases with varying payments, under the straight-line method over the noncancelable term of the lease. In certain cases, leases provide for additional payments contingent on usage. Rental income is recognized at the time such usage occurs less a provision for future contractual aircraft maintenance. AIG is also a remarketer of flight equipment for its own account and for airlines and financial institutions, and provides, for a fee, fleet management services to certain third-party operators. AIG's revenues from such operations consist of net gains on sales of flight equipment and commissions.

AIG provides a wide variety of consumer finance products, including mortgages, retail sales finance and credit related insurance.

Retirement Savings & Asset Management Operations: AIG's retirement savings & asset management operations offer a wide variety of investment vehicles and services, including variable annuities, mutual funds and investment asset management. Such products and services are offered to individuals and institutions both domestically and internationally. The fees generated with respect to retirement savings & asset management operations are recognized as revenues when earned. Costs incurred in the sale of variable annuities and mutual funds are deferred and subsequently amortized. With respect to variable annuities, acquisition costs are amortized in relation to the incidence of estimated gross profits to be realized over the estimated lives of the variable annuity contracts. With respect to the sale of mutual funds, acquisition costs are amortized over the estimated lives of the funds obtained.

(C) NON-CASH TRANSACTIONS: During 2001 and 2000, AIG issued 291.6 million and 17.8 million common shares, respectively, in connection with acquisitions.

(D) INVESTMENTS IN FIXED MATURITIES AND EQUITY SECURITIES: Where AIG may not have the positive intent to hold bonds and preferred stocks until maturity, these securities are considered to be available for sale and carried at current market values. Interest income with respect to fixed maturity securities is accrued currently.

Fixed maturities held to maturity, at amortized cost, were transferred to bonds available for sale, at market value, as of January 1, 2001 as permitted and in accordance with the transition provisions of the Financial Accounting Standards No. 138 "Accounting for Derivative Instruments and Hedging Activities - -- an amendment of FASB Statement No. 133" (collectively, FAS 133). (See Notes 1(y) and 8(d)).

Included in the bonds available for sale are collateralized mortgage obligations (CMOs). Premiums and discounts arising from the purchase of CMOs are treated as yield adjustments over their estimated lives.

Bond trading securities are carried at current market values, as it is AIG's intention to sell these securities in the near term.

Common and non-redeemable preferred stocks are carried at current market values. Dividend income is generally recognized when receivable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unrealized gains and losses from investments in equity securities and fixed maturities available for sale are reflected as a separate component of comprehensive income, net of deferred income taxes in capital funds currently. Unrealized gains and losses from investments in trading securities are reflected in income currently.

Realized capital gains and losses are determined principally by specific identification. Where declines in values of securities below cost or amortized cost are considered to be other than temporary, a charge is reflected in income for the difference between cost or amortized cost and estimated net fair value.

In January 2001, the Emerging Issues Task Force (EITF) issued EITF 99-20, "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets." EITF 99-20 provides guidance on the calculation of interest income and the recognition of impairments related to beneficial interests held in an investment portfolio. Beneficial interests are investments that represent rights to receive specified cash flows from a pool of underlying assets (e.g., collateralized debt obligations). In accordance with the transition provisions of EITF 99-20, AIG recorded in its consolidated income statement for 2001 a cumulative effect of an accounting change adjustment loss of $130 million ($200 million before tax).

(E) MORTGAGE LOANS ON REAL ESTATE, POLICY AND COLLATERAL LOANS -- NET: Mortgage loans on real estate, policy loans and collateral loans are carried at unpaid principal balances. Interest income on such loans is accrued currently.

Impairment of mortgage loans on real estate and collateral loans is based upon certain risk factors and when collection of all amounts due under the contractual term is not probable. This impairment is generally measured based on the present value of expected future cash flows discounted at the loan's effective interest rate subject to the fair value of underlying collateral. Interest income on such loans is recognized as cash is received.

There is no allowance for policy loans, as these loans serve to reduce the death benefit paid when the death claim is made and the balances are effectively collateralized by the cash surrender value of the policy.

(F) FLIGHT EQUIPMENT: Flight equipment is stated at cost. Major additions and modifications are capitalized. Normal maintenance and repairs, airframe and engine overhauls and compliance with return conditions of flight equipment on lease are provided by and paid for by the lessee. Under the provisions of most leases for certain airframe and engine overhauls, the lessee is reimbursed for costs incurred up to but not exceeding contingent rentals paid to AIG by the lessee. AIG provides a charge to income for such reimbursements based upon the expected reimbursements during the life of the lease. Depreciation and amortization are computed on the straight-line basis to a residual value of approximately 15 percent over the estimated useful lives of the related assets but not exceeding 25 years. AIG monitors the global aircraft market and the values of various types and models of aircraft within that market relative to the values of its own fleet. If events or circumstances were such that the carrying amount of AIG's aircraft might be impaired, AIG would determine if such impairment existed and recognize such impairment in accordance with Financial Accounting Standards Board (FASB) Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This caption also includes deposits for aircraft to be purchased.

At the time the assets are retired or disposed of, the cost and associated accumulated depreciation and amortization are removed from the related accounts and the difference, net of proceeds, is recorded as a gain or loss.

(G) SECURITIES AVAILABLE FOR SALE, AT MARKET VALUE:

These securities are held to meet long term investment objectives and are accounted for as available for sale, carried at current market values and recorded on a trade date basis. Unrealized gains and losses from valuing these securities and any related hedges are reflected in capital funds currently, net of any related deferred income taxes. When the underlying security is sold, the realized gain or loss resulting from the hedging derivative transaction is recognized in income in that same period as the realized gain or loss of the hedged security.

(H) FINANCE RECEIVABLES: Finance charges are recognized as revenue using the interest method. Revenue ceases to be accrued when contractual payments are not received for four consecutive months for loans and retail sales contracts, and for six months for revolving retail accounts and private label receivables. Extension fees, late charges, and prepayment penalties are recognized as revenue when received.

Direct costs of originating loans, net of non-refundable points and fees, are deferred and included in the carrying amount of the related loans. The amount deferred is recognized as an adjustment to finance charge revenues, using the interest method over the lesser of the contractual term or the expected life based on prepayment experience. If loans are prepaid, any remaining deferral is charged or credited to revenue.

Foreclosure proceedings are initiated on real estate loans when four monthly installments are past due and these loans are charged off at foreclosure. All other finance receivables are charged off when minimal or no collections have been made for six months.

The allowance for finance receivable losses is maintained at a level considered adequate to absorb anticipated credit losses in the existing portfolio. The portfolio is periodically evaluated on a pooled basis and

considers factors such as economic conditions, portfolio composition, and loss
and delinquency experience in the evaluation of the allowance.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) TRADING SECURITIES, AT MARKET VALUE: Trading securities are held to meet short term investment objectives, including hedging securities. These securities are recorded on a trade date basis and carried at current market values. Unrealized gains and losses are reflected in income currently.

(J) SPOT COMMODITIES, AT MARKET VALUE: Spot commodities are carried at current market values and are recorded on a trade date basis. The exposure to market risk may be reduced through the use of forwards, futures and option contracts. Unrealized gains and losses of both commodities and any derivative transactions are reflected in income currently.

(K) UNREALIZED GAIN AND UNREALIZED LOSS ON INTEREST RATE AND CURRENCY SWAPS, OPTIONS AND FORWARD TRANSACTIONS: Interest rate swaps, currency swaps, equity swaps, swaptions, options and forward transactions are accounted for as contractual commitments recorded on a trade date basis and are carried at current market values or estimated fair values when market values are not available. Unrealized gains and losses are reflected in income currently. Estimated fair values are based on the use of valuation models that utilize, among other things, current interest, foreign exchange and volatility rates. AIG Financial Products Corp. and its subsidiaries (AIGFP) attempt to secure reliable and independent current market prices, such as published exchange prices, external subscription services' prices such as Bloomberg or Reuters or third party broker quotes for use in these models. When such prices are not available, AIGFP uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions. These valuations represent an assessment of the present values of expected future cash flows of these transactions and reflect market and credit risk. The portfolio's discounted cash flows are evaluated with reference to current market conditions, maturities within the portfolio and other relevant factors. Based upon this evaluation, it is determined what offsetting transactions, if any, are necessary to reduce the market risk of the portfolio. AIG manages its market risk with a variety of transactions, including swaps, trading securities, futures and forward contracts and other transactions as appropriate. Because of the limited liquidity of some of these instruments, the recorded values of these transactions may be different than the values that might be realized if AIG were 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.

(L) TRADING ASSETS AND TRADING LIABILITIES: Trading assets and trading liabilities include option premiums paid and received and receivables from and payables to counterparties which relate to unrealized gains and losses on futures, forwards and options and balances due from and due to clearing brokers and exchanges.

Futures, forwards and options purchased and written are accounted for as contractual commitments on a trade date basis and are carried at fair values. Unrealized gains and losses are reflected in income currently. The fair values of futures contracts are based on closing exchange quotations.
Commodity forward transactions are carried at fair values derived from dealer quotations and underlying commodity exchange quotations. For long dated forward transactions, where there are no dealer or exchange quotations, fair values are derived using internally developed valuation methodologies based on available market information. Options are carried at fair values based on the use of valuation models that utilize, among other things, current interest or commodity rates and foreign exchange and volatility rates, as applicable.

(M) SECURITIES PURCHASED (SOLD) UNDER AGREEMENTS TO RESELL (REPURCHASE), AT CONTRACT VALUE: Purchases of securities under agreements to resell and sales of securities under agreements to repurchase are accounted for as collateralized lending transactions and are recorded at their contracted resale or repurchase amounts, plus accrued interest. Generally, it is AIG's policy to take possession of or obtain a security interest in securities purchased under agreements to resell.

AIG minimizes the credit risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with AIG when deemed necessary.

AIG also enters into dollar roll agreements. These are agreements to sell mortgage-backed securities and to repurchase substantially the same securities at a specified price and date in the future. The dollar rolls are accounted for as collateralized financings and the repurchase obligation is a component of other liabilities. At December 31, 2002, 2001 and 2000, there were no dollar rolls outstanding.

(N) SECURITIES LENDING COLLATERAL AND SECURITIES LENDING PAYABLE: AIG's insurance operations lend their securities and primarily take cash as collateral with respect to the securities lent. Income earned on invested collateral, net of interest payable to the collateral provider is recorded in net investment income.

(O) OTHER INVESTED ASSETS: Other invested assets consist primarily of investments by AIG's insurance operations in joint ventures and partnerships, and other investments not classified elsewhere herein.

The joint ventures and partnerships are carried at equity or cost depending on the equity ownership position.

Other investments are carried at cost or market values depending upon the

nature of the underlying assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(P) REINSURANCE ASSETS: Reinsurance assets include the balances due from both reinsurance and insurance companies under the terms of AIG's reinsurance agreements for paid and unpaid losses and loss expenses, ceded unearned premiums and ceded future policy benefits for life and accident and health insurance contracts and benefits paid and unpaid. Amounts related to paid and unpaid losses and loss expenses with respect to these reinsurance agreements are substantially collateralized.

(Q) INVESTMENTS IN PARTIALLY-OWNED COMPANIES: The equity method of accounting is used for AIG's investment in companies in which AIG's ownership interest approximates twenty but is not greater than fifty percent (minority-owned companies). At December 31, 2002, AIG's significant investments in partially-owned companies included its 24.3 percent interest in IPC Holdings, Ltd., its 23.4 percent interest in Allied World Assurance Holdings, Ltd. and its 22.1 percent interest in The Fuji Fire and Marine Insurance Co., Ltd. This balance sheet caption also includes investments in less significant partially-owned companies and in certain minor majority-owned subsidiaries. The amounts of dividends received from unconsolidated entities owned less than 50 percent were $13 million, $3 million and $3 million in 2002, 2001 and 2000, respectively. The undistributed earnings of unconsolidated entities owned less than 50 percent was $155 million as of December 31, 2002.

(R) REAL ESTATE AND OTHER FIXED ASSETS: The costs of buildings and furniture and equipment are depreciated principally on a straight-line basis over their estimated useful lives (maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred; expenditures for betterments are capitalized and depreciated.

From time to time, AIG assesses the carrying value of its real estate relative to the market values of real estate within the specific local area. At December 31, 2002, there were no impairments.

(S) SEPARATE AND VARIABLE ACCOUNTS: Separate and variable accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who predominantly bear the investment risk. Each account has specific investment objectives, and the assets are carried at market value. The assets of each account are legally segregated and are not subject to claims which arise out of any other business of AIG. The liabilities for these accounts are equal to the account assets.

(T) SECURITIES AND SPOT COMMODITIES SOLD BUT NOT YET PURCHASED, AT MARKET VALUE: Securities and spot commodities sold but not yet purchased represent sales of securities and spot commodities not owned at the time of sale. The obligations arising from such transactions are recorded on a trade date basis and carried at the respective current market values or current commodity prices. Unrealized gains or losses are reflected in income currently.

(U) PREFERRED SHAREHOLDERS' EQUITY IN SUBSIDIARY COMPANIES: Preferred shareholders' equity in subsidiary companies relates to outstanding preferred stock or interest of ILFC and certain subsidiaries of AIG SunAmerica, AGC and HSB, wholly owned subsidiaries of AIG. Cash distributions on such preferred stock or interest are accounted for as interest expense and included as minority interest in the consolidated statement of income.

(V) TRANSLATION OF FOREIGN CURRENCIES: Financial statement accounts expressed in foreign currencies are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" (FAS 52). Under FAS 52, functional currency assets and liabilities are translated into U.S. dollars generally using current rates of exchange prevailing at the balance sheet date of each respective subsidiary and the related translation adjustments are recorded as a separate component of comprehensive income, net of any related taxes in capital funds. Functional currencies are generally the currencies of the local operating environment. Income statement accounts expressed in functional currencies are translated using average exchange rates. The adjustments resulting from translation of financial statements of foreign entities operating in highly inflationary economies are recorded in income. Exchange gains and losses resulting from foreign currency transactions are also recorded in income currently. The exchange gain or loss with respect to utilization of foreign exchange hedging instruments is recorded as a component of comprehensive income.

(W) INCOME TAXES: Deferred federal and foreign income taxes are provided for temporary differences for the expected future tax consequences of events that have been recognized in AIG's financial statements or tax returns.

(X) EARNINGS PER SHARE: Basic earnings per common share are based on the weighted average number of common shares outstanding, retroactively adjusted to reflect all stock dividends and stock splits. Diluted earnings per share are based on those shares used in basic earnings per share plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, retroactively adjusted to reflect all stock dividends and stock splits.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

THE COMPUTATION OF EARNINGS PER SHARE FOR DECEMBER 31, 2002, 2001 AND 2000 WAS AS FOLLOWS:

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	2002	2001	2000
NUMERATOR FOR BASIC EARNINGS PER SHARE:			
Income before cumulative effect of accounting changes	$ 5,519	$ 5,499	$ 6,639
Cumulative effect of accounting changes, net of tax	--	(136)	--
Net income	5,519	5,363	6,639
Net income applicable to common stock	$ 5,519	$ 5,363	$ 6,639
DENOMINATOR FOR BASIC EARNINGS PER SHARE:			
Average shares outstanding used in the computation of per share earnings:			
Common stock issued	2,752	2,762	2,796
Common stock in treasury	(140)	(141)	(189)
Average shares outstanding-- basic	2,612	2,621	2,607
NUMERATOR FOR DILUTED EARNINGS PER SHARE:			
Income before cumulative effect of accounting changes	$ 5,519	$ 5,499	$ 6,639
Cumulative effect of accounting changes, net of tax	--	(136)	--
Net income	5,519	5,363	6,639
Dividends on convertible preferred securities	--	--	5
Net income applicable to common stock	$ 5,519	$ 5,363	$ 6,644
DENOMINATOR FOR DILUTED EARNINGS PER SHARE:			
Average shares outstanding	2,612	2,621	2,607
Incremental shares from potential common stock:			
Average number of shares arising from outstanding employee stock plans (treasury stock method)	22	29	27
Average number of shares issuable upon conversion of convertible securities and preferred stock	--	--	4
Average shares outstanding-- diluted	2,634	2,650	2,638
EARNINGS PER SHARE:			
Basic:			
Income before cumulative effect of accounting changes	$ 2.11	$ 2.10	$ 2.55
Cumulative effect of accounting changes	--	(0.05)	--
Net income	$ 2.11	$ 2.05	$ 2.55
Diluted:			
Income before cumulative effect of accounting changes	$ 2.10	$ 2.07	$ 2.52
Cumulative effect of accounting changes	--	(0.05)	--
Net income	$ 2.10	$ 2.02	$ 2.52

(Y) DERIVATIVES: In June 1998, the Financial Accounting Standards Board (FASB) issued FAS 133. In June 2000, FASB issued Statement of Financial Accounting Standards No. 138 "Accounting for Derivative Instruments and Hedging Activities--an amendment of FASB Statement No. 133" (collectively, FAS 133).

FAS 133 requires AIG to recognize all derivatives in the consolidated balance sheet at fair value. The financial statement recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative and the extent to which it is effective as part of a hedge transaction. The changes in fair value of the derivative transactions of AIGFP and AIG Trading Group Inc. and its subsidiaries (AIGTG) are currently presented, in all material respects, as a component of AIG's operating income. The discussion below relates to the derivative activities of AIG other than those of AIGFP and AIGTG.

On the date the derivative contract is entered into, AIG designates the derivative as: (i) a hedge of the subsequent changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (ii) a hedge of a forecasted transaction, or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (iii) a hedge of a net investment in a foreign operation. Fair value and cash flow hedges may involve foreign currencies

("foreign currency hedges"). The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a fair value hedge is recorded in current period earnings, along with the loss or gain on the hedged item attributable to the hedged risk. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a cash flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a hedge of a net investment in a foreign operation is recorded in the foreign currency translation adjustments account within other comprehensive income. Changes in the fair value of derivatives used for other than the above hedging activities are reported in current period earnings.

AIG documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as hedges to specific assets or liabilities on the balance sheet, or specific firm commitments or forecasted transactions. AIG also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

In accordance with the transition provisions of FAS 133, AIG recorded in its consolidated income statement for 2001 a cumulative effect of an accounting change adjustment loss of $6 million. This loss represents the net fair value of all previous unrecorded derivative instruments as of January 1, 2001, net of tax and after the application of hedge accounting. AIG also recorded in its consolidated statement of comprehensive income for 2001 a cumulative effect of an accounting change adjustment gain of $150 million. This gain represents the increase in other comprehensive income, net of taxes,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

arising from recognizing the fair value of all derivative contracts designated as cash flow hedging instruments, and to a lesser extent, hedging instruments used to hedge net investments in foreign operations.

AIG (excluding its two trading operations, AIGFP and AIGTG) uses derivative instruments (principally swap and forward contracts) to minimize AIG's asset-liability exposure and foreign currency and interest rate exposures. These risks arise primarily from available-for-sale fixed income securities, debt, and policyholder account balance liabilities associated with guaranteed investment contracts. Other hedging activities, such as those involving forecasted transactions or equity securities, are not significant. During 2002, there were no hedges that were discontinued or otherwise no longer qualify as hedges under FAS 133. With respect to both fair value hedges and cash flow hedges, hedge ineffectiveness was insignificant for 2002. During 2002, there were minor reclassifications to earnings from other comprehensive income under cash flow hedge accounting. These reclassifications were connected to programs of synthetically converting certain investment securities, debt issuances or policyholder account balance liabilities associated with guaranteed investment contracts, from a floating interest rate to a fixed interest rate. As at December 31, 2002, the maximum amount of net derivative losses to be reclassified into net income within the next twelve months is insignificant. The maximum length of time over which future cash flows are hedged is approximately 16 years.

In addition to hedging activities, AIG also uses derivative instruments with respect to investment operations, which include, among other things, writing option contracts, and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds. All changes in the market value of these derivatives are recorded in earnings. AIG bifurcates an embedded derivative where: (i) the economic characteristics of the embedded instruments are not clearly and closely related to those of the remaining components of the financial instrument; and (ii) a separate instrument with the same terms as the embedded instrument meets the definition of a derivative under FAS 133.

In accordance with the transition provisions of FAS 133, AIG transferred bonds in the held to maturity, at amortized cost category into the bonds available for sale, at market value category at January 1, 2001. The amortized cost of the bonds transferred was $11.53 billion. The unrealized appreciation, net of deferred tax expense was approximately $339 million at the date of transfer and was recorded as a cumulative effect of an accounting change within other comprehensive income. Under the provisions of FAS 133, such a transfer does not affect AIG's intent nor its ability to hold current or future bonds to their maturity.

(Z) GOODWILL AND INTANGIBLE ASSETS: In June 2001, FASB issued Statement of Financial Accounting Standard No. 141 "Business Combinations" (FAS 141). FAS 141 requires AIG, among other things, to apply the purchase method of accounting for all acquisitions initiated after June 30, 2001.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (FAS 142). As of January 1, 2002, AIG adopted FAS 142. FAS 142 requires AIG to discontinue the amortization of goodwill in its consolidated income statement. Amortization expense recorded in AIG's consolidated statement of income amounted to $163 million and $98 million pre-tax for 2001 and 2000, respectively.

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

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

(AA) ACCOUNTING STANDARDS: In November 2002, FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN45). FIN45 requires that, for guarantees within its scope that are issued or amended after December 31, 2002, a liability for the fair value of the obligation undertaken in issuing the guarantee be established and recognized through earnings. FIN45 also requires additional disclosures in financial statements starting with AIG's 2002 year-end financial statements.

AIG believes that the impact of FIN45 on its results of operations and financial condition will not be significant.

AIG guarantees the indebtedness of third parties principally in connection with AIG SunAmerica Inc.'s (AIG SunAmerica) investments in affordable housing properties. The guarantees are issued primarily to facilitate financing for the construction of the underlying properties, and range in duration of up to ten years. The loans are secured by the underlying real estate. Since the inception of this investment program over ten years ago, payments under these guarantees have been insignificant. This is due to the fact that the loans are first backed by the creditworthiness of the third party general partner, and secondly, are secured by the underlying properties. The maximum exposure under

these guarantees as of December 31, 2002 is approximately $4.2 billion.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition, AIG's real estate investment operations will occasionally extend guarantees to real estate partnerships in which they are an investor. The guarantees facilitate financing for the construction, and/or purchase of land. There have been no losses incurred on any guarantee to date. This is due to the fact that the loans are first backed by the creditworthiness of the third party general partner, and secondly, are secured by the underlying properties. The maximum exposure of these guarantees as of December 31, 2002 is approximately $130 million.

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN46). FIN46 changes the method of determining whether certain entities should be consolidated in AIG's consolidated financial statements. An entity is subject to FIN46 and is called a Variable Interest Entity (VIE) if it has (i) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) equity investors that cannot make significant decisions about the entity's operations, or do not absorb the expected losses or receive the expected returns of the entity. All other entities are evaluated for consolidation under existing guidance. A VIE is consolidated by its primary beneficiary, which is the party that has a majority of the expected losses or a majority of the expected residual returns of the VIE, or both.

The provisions of FIN46 are to be applied immediately to VIEs created after January 31, 2003, and to VIEs in which AIG obtains an interest after that date. For VIEs in which AIG holds a variable interest that it acquired before February 1, 2003, FIN46 applies to the fiscal quarter ended September 30, 2003. For any VIEs that must be consolidated under FIN46 that were created before February 1, 2003, the assets, liabilities and noncontrolling interest of the VIE would be initially measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change.

AIG is currently evaluating the impact of applying FIN46 to existing VIEs in which it has a variable interest, and believes that the impact on its results of operations and financial condition will not be significant. (See Note 20 of Notes to Financial Statements.)

2. SEGMENT INFORMATION

Certain subsidiaries operate solely outside of the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written and/or investment and non-insurance related operations are located. In addition, certain of AIG's domestic subsidiaries have branch and/or subsidiary operations and substantial assets and liabilities in foreign countries. Certain countries have restrictions on the conversions of funds which generally cause a delay in the outward remittance of such funds. Approximately 27 percent and 26 percent of consolidated assets at December 31, 2002 and 2001, respectively, and 41 percent of revenues in each of the years ended December 31, 2002, 2001 and 2000, respectively, were located in or derived from foreign countries (other than Canada).

(a) AIG's operations are conducted principally through four business segments. These segments and their respective operations are as follows:

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

The Domestic Brokerage Group (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. HSB's operations are included in this group.

Transatlantic Holdings, Inc. (Transatlantic) offers through its reinsurance company subsidiaries reinsurance capacity both domestically and overseas on treaty and facultative basis for a full range of property and casualty products.

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

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

AIG's Foreign General insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. The Foreign General group uses various marketing methods to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in over 70 countries in Asia, the Pacific Rim, Europe, Africa, Middle East and Latin America.

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

AIG's three principal overseas life operations are American Life Insurance Company (ALICO), American International Assurance Company, Ltd. (AIA)

and Nan Shan Life Insurance Company, Ltd. (Nan Shan). ALICO is

2. SEGMENT INFORMATION (continued)

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

Financial Services: AIG's financial services subsidiaries engage in diversified financial products and services including aircraft leasing, consumer and insurance premium financing, and capital markets structuring and market-making activities.

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

AIG Financial Products Corp. and its subsidiaries (AIGFP) engage in a wide variety of financial transactions, including long-dated interest rate, currency, equity and credit derivatives and structured borrowings through notes, bonds and guaranteed investment agreements. AIGFP does not engage in trading activities with respect to commodity contracts. AIG Trading Group Inc. through its subsidiaries (AIGTG) engages in various commodity trading, foreign exchange trading, and market making activities.

AIG's Consumer Finance operations include American General Finance, Inc. as well as AIG Consumer Finance Group, Inc. (AIGCFG). AGF and AIGCFG provide a wide variety of consumer finance products, including real estate mortgages, consumer loans, retail sales finance and credit related insurance to customers both domestically and overseas, particularly emerging markets.

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

AIG's principal retirement savings & asset management operations are conducted through AIG SunAmerica, The Variable Annuity Life Insurance Company (VALIC), and the subsidiaries and affiliated companies of AIG Global Investment Group, Inc. (AIG Global Investment Group). AIG SunAmerica develops and sells variable annuities and other investment products, sells and manages mutual funds and provides financial services. VALIC provides tax qualified annuities to employees of educational, healthcare and governmental entities. AIG Global Investment Group manages third-party institutional, retail and private equity funds' invested assets on a global basis, and provides securities lending and custodial services. An AIG Global Investment Group member organizes and manages the invested assets of institutional private equity investment funds. Each of these subsidiary operations receives fees for investment products and services provided.

2. SEGMENT INFORMATION (continued)

(B) THE FOLLOWING TABLE SUMMARIZES THE OPERATIONS BY MAJOR OPERATING SEGMENT FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000:

	OPERATING SEGMENTS-2002							
(in millions)	GENERAL INSURANCE	LIFE INSURANCE	FINANCIAL SERVICES	RETIREMENT SAVINGS & ASSET MANAGEMENT	OTHER(A)	TOTAL REPORTABLE SEGMENTS	RECLASSIFICATIONS AND ELIMINATIONS	CONSOLIDATED
Revenues (b)	$ 26,171	$ 31,541	$ 6,815	$ 3,485	$ (530)	$ 67,482	$ --	$ 67,482
Interest revenue	--	--	3,787	65	--	3,852	--	3,852
Interest expense	--	76	3,327	11	215	3,629	--	3,629
Realized capital gains (losses)	(858)	(1,053)	--	--	(530)	(2,441)	--	(2,441)
Operating income (loss) before minority interest	667(c)	4,929	2,189	1,016	(659)	8,142	--	8,142
Income taxes (benefits)	210	1,979	765	355	(981)	2,328	--	2,328
Depreciation expense	178	239	1,097	7	132	1,653	--	1,653
Capital expenditures	323	725	5,395	59	150	6,652	--	6,652
Identifiable assets	109,068	339,847	124,617	2,567	60,769	636,868	(75,639)	561,229

	Operating Segments-2001							
(in millions)	General Insurance	Life Insurance	Financial Services	Retirement Savings & Asset Management	Other(a)	Total Reportable Segments	Reclassifications and Eliminations	Consolidated
Revenues (b)	$ 22,128	$ 29,893	$ 6,485	$ 3,712	$ (452)	$ 61,766	$ --	$ 61,766
Interest revenue	--	--	3,983	84	--	4,067	--	4,067
Interest expense	2	109	3,596	17	314	4,038	--	4,038
Realized capital gains (losses)	(130)	(254)	--	--	(452)	(836)	--	(836)
Operating income (loss) before minority interest	2,851(d)	4,675(d)	1,991	1,088	(2,466)(e)	8,139	--	8,139
Income taxes (benefits)	742	1,579	706	366	(1,054)	2,339	--	2,339
Depreciation expense	189	216	910	5	117	1,437	--	1,437
Capital expenditures	290	842	4,529	11	156	5,828	--	5,828
Identifiable assets	91,544	296,648	107,322	1,842	54,749	552,105	(59,044)	493,061

	Operating Segments-2000							
(in millions)	General Insurance	Life Insurance	Financial Services	Retirement Savings & Asset Management	Other(a)	Total Reportable Segments	Reclassifications and Eliminations	Consolidated
Revenues (b)	$ 20,146	$ 26,963	$ 5,954	$ 3,465	$ (190)	$ 56,338	$ --	$ 56,338
Interest revenue	--	--	3,557	94	--	3,651	--	3,651
Interest expense	5	144	3,276	15	265	3,705	--	3,705
Realized capital gains (losses)	38	(162)	--	--	(190)	(314)	--	(314)
Operating income (loss) before minority interest	3,524	4,058	1,666	1,108	(333)	10,023	--	10,023
Income taxes (benefits)	931	1,315	581	388	(244)	2,971	--	2,971
Depreciation expense	149	149	833	4	108	1,243	--	1,243
Capital expenditures	278	501	3,748	18	184	4,729	--	4,729
Identifiable assets	85,270	248,982	94,173	1,590	41,460	471,475	(44,804)	426,671

(a) Includes AIG Parent and other operations which are not required to be reported separately.

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

(c) Includes loss reserve charge of $2.8 billion.

(d) Includes $769 million and $131 million with respect to WTC losses for general and life insurance operations, respectively.

(e) Includes acquisition, restructuring and related charges of $2,017 million.

2. SEGMENT INFORMATION (continued)

(C) THE FOLLOWING IS AIG'S CONSOLIDATED STATEMENT OF SEGMENT OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000:

CONSOLIDATED STATEMENT OF SEGMENT OPERATIONS

(in millions)

	2002	2001	2000
General insurance operations:			
Net premiums written	$ 27,414	$ 20,101	$ 17,526
Change in unearned premium reserve	(3,145)	(736)	(119)
Net premiums earned	24,269	19,365	17,407
Net investment income	2,760	2,893	2,701
Realized capital gains (losses)	(858)	(130)	38
General insurance revenues	26,171	22,128	20,146
Losses incurred	18,449(A)	12,459	11,379
Losses incurred: World Trade Center and related losses (WTC)	--	769	--
Loss expenses incurred	2,365(B)	2,178	1,725
Underwriting expenses	4,690	3,871	3,518
General insurance benefits and expenses	25,504	19,277	16,622
General insurance operating income	667(A)(B)	2,851	3,524
Life insurance			
Premium income	20,320	19,063	17,163
Net investment income	12,274	11,084	9,962
Realized capital gains (losses)	(1,053)	(254)	(162)
Life insurance revenues	31,541	29,893	26,963
Death and other benefits	10,552	10,449	8,264
Death and other benefits: WTC	--	131	--
Increase in future policy benefits	10,561	9,068	9,496
Acquisition and insurance expenses	5,499	5,570	5,145
Life insurance benefits and expenses	26,612	25,218	22,905
Life insurance operating income	4,929	4,675	4,058
Financial services operating income	2,189	1,991	1,666
Retirement savings & asset management operating income	1,016	1,088	1,108
Other realized capital gains (losses)	(530)	(452)	(190)
Other income (deductions) - net	(129)(C)	3	172
Acquisition, restructuring and related charges	--	(2,017)	(315)
Income before income taxes, minority interest and cumulative effect of accounting changes	$ 8,142	$ 8,139	$ 10,023

(a) Includes loss reserve charge of $2.8 billion.

(b) Includes 21st Century's loss adjustment expense pre-tax provision of $43 million for SB 1899 Northridge earthquake claims.

(c) Includes 21st Century's pre-tax charge of $37 million to write off capitalized costs associated with a software development project.

2. SEGMENT INFORMATION (continued)

(D) THE FOLLOWING TABLE SUMMARIZES AIG'S GENERAL INSURANCE OPERATIONS BY MAJOR INTERNAL REPORTING GROUP FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000:

	GENERAL INSURANCE-2002							
(in millions)	DOMESTIC BROKERAGE GROUP	TRANSATLANTIC	PERSONAL LINES	MORTGAGE GUARANTY	FOREIGN GENERAL	TOTAL REPORTABLE SEGMENT	RECLASSIFICATIONS AND ELIMINATIONS	TOTAL GENERAL INSURANCE
Net premiums written	$ 15,214	$ 2,500	$ 3,182	$ 508	$ 6,010	$ 27,414	$ --	$ 27,414
Net premiums earned	13,053	2,369	2,913	502	5,432	24,269	--	24,269
Losses & loss expenses incurred	13,244	1,796	2,365	88	3,321	20,814	--	20,814
Underwriting expenses	1,858	631	519	136	1,546	4,690	--	4,690
Adjusted underwriting profit (loss)(a)(c)	(2,049)	(58)	29	278	565	(1,235)	--	(1,235)
Net investment income	1,609	252	122	139	615	2,737	23	2,760
Operating income (loss) before realized capital gains (b)	(440)(C)(E)	194(C)	151	417	1,180	1,502	23	1,525
Depreciation expense	72	3	27	3	73	178	--	178
Capital expenditures	101	1	38	2	181	323	--	323
Identifiable assets	73,588	7,287	3,516	2,547	25,638	112,576	(3,508)	109,068

	General Insurance-2001							
(in millions)	Domestic Brokerage Group	Transatlantic	Personal Lines	Mortgage Guaranty	Foreign General	Total Reportable Segment	Reclassifications and Eliminations	Total General Insurance
Net premiums written	$ 10,197	$ 1,906	$ 2,454	$ 494	$ 5,050	$ 20,101	$ --	$ 20,101
Net premiums earned	9,776	1,790	2,478	489	4,832	19,365	--	19,365
Losses & loss expenses incurred	8,728	1,562	2,130	63	2,923	15,406	--	15,406
Underwriting expenses	1,386	502	440	115	1,428	3,871	--	3,871
Adjusted underwriting profit (loss)(a)(d)	(338)	(274)	(92)	311	481	88	--	88
Net investment income	1,827	240	114	106	583	2,870	23	2,893
Operating income (loss) before realized capital gains (b) (d)	1,489(e)	(34)	22	417	1,064	2,958	23	2,981
Depreciation expense	83	3	28	4	71	189	--	189
Capital expenditures	106	2	69	3	110	290	--	290
Identifiable assets	60,604	6,741	3,863	2,219	21,781	95,208	(3,664)	91,544

	General Insurance-2000							
(in millions)	Domestic Brokerage Group	Transatlantic	Personal Lines	Mortgage Guaranty	Foreign General	Total Reportable Segment	Reclassifications and Eliminations	Total General Insurance
Net premiums written	$ 7,934	$ 1,659	$ 2,510	$ 453	$ 4,970	$17,526	$ --	$17,526
Net premiums earned	8,023	1,632	2,401	452	4,899	17,407	--	17,407
Losses & loss expenses incurred	6,843	1,197	2,022	68	2,974	13,104	--	13,104
Underwriting expenses	1,003	434	416	114	1,551	3,518	--	3,518
Adjusted underwriting profit (loss)(a)	177	1	(37)	270	374	785	--	785
Net investment income	1,614	234	113	93	570	2,624	77	2,701
Operating income before realized capital gains(b)	1,791(e)	235	76	363	944	3,409	77	3,486
Depreciation expense	52	2	19	5	71	149	--	149
Capital expenditures	102	2	75	4	95	278	--	278
Identifiable assets	57,302	5,523	3,776	1,867	19,626	88,094	(2,824)	85,270

(a) Adjusted underwriting profit (loss) is a GAAP measure that represents statutory underwriting profit or loss adjusted primarily for changes in deferred acquisition costs.

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

(c) Includes loss reserve charge of $2.7 billion and $100 million for DBG and Transatlantic, respectively.

(d) Includes $769 million with respect to WTC losses: DBG: $544 million; Transatlantic: $200 million; Foreign General: $25 million.

(e) Includes $333 million, $139 million ($198 million excluding WTC losses) and $224 million for the twelve months ended December 31, 2002, 2001 and 2000, respectively, with respect to the Lexington Surplus Lines Pool.

2. SEGMENT INFORMATION (continued)

(E) THE FOLLOWING TABLE SUMMARIZES AIG'S LIFE INSURANCE OPERATIONS BY MAJOR INTERNAL REPORTING GROUP FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000:

	LIFE INSURANCE-2002						
(in millions)	ALICO AND STAR LIFE(A)	AIA AND NAN SHAN	DOMESTIC LIFE	OTHER	TOTAL REPORTABLE SEGMENT	RECLASSIFICATIONS AND ELIMINATIONS	TOTAL LIFE INSURANCE
Premium income	$ 5,747	$ 9,606	$ 4,622	$ 345	$ 20,320	$--	$ 20,320
Net investment income	1,605	2,156	8,325	188	12,274	--	12,274
Operating income before realized capital gains (b)	1,562	1,622	2,688	110	5,982	--	5,982
Depreciation expense	73	48	112	6	239	--	239
Capital expenditures	245	148	330	2	725	--	725
Identifiable assets	55,112	49,919	233,004	2,406	340,441	(594)	339,847

	Life Insurance-2001						
(in millions)	ALICO and Star Life(a)	AIA and Nan Shan	Domestic Life	Other	Total Reportable Segment	Reclassifications and Eliminations	Total Life Insurance
Premium income	$ 5,212	$ 8,485	$ 4,948	$ 418	$ 19,063	$ --	$ 19,063
Net investment income	1,502	1,880	7,504	198	11,084	--	11,084
Operating income before realized capital gains (b) (c)	1,048	1,483	2,288	110	4,929	--	4,929
Depreciation expense	65	40	104	7	216	--	216
Capital expenditures	506	81	238	17	842	--	842
Identifiable assets	45,767	41,854	206,734	2,877	297,232	(584)	296,648

	Life Insurance-2000						
(in millions)	ALICO	AIA and Nan Shan	Domestic Life	Other	Total Reportable Segment	Reclassifications and Eliminations	Total Life Insurance
Premium income	$ 4,134	$ 7,859	$ 4,809	$ 361	$ 17,163	$--	$ 17,163
Net investment income	1,346	1,688	6,781	147	9,962	--	9,962
Operating income before realized capital gains (b)	757	1,409	1,979	75	4,220	--	4,220
Depreciation expense	46	33	62	8	149	--	149
Capital expenditures	313	58	98	32	501	--	501
Identifiable assets	28,532	32,697	186,111	1,807	249,147	(165)	248,982

(a) Increase in 2001 reflects acquisition of AIG Star Life Insurance Co. Ltd. in April 2001.

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

(c) Includes $131 million with respect to WTC losses.

2. SEGMENT INFORMATION (continued)

(F) THE FOLLOWING TABLE SUMMARIZES AIG'S FINANCIAL SERVICES OPERATIONS BY MAJOR INTERNAL REPORTING GROUP FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000:

	FINANCIAL SERVICES-2002						
(in millions)	ILFC	AIGFP(A)	CONSUMER FINANCE	OTHER	TOTAL REPORTABLE SEGMENT	RECLASSIFICATIONS AND ELIMINATIONS	TOTAL FINANCIAL SERVICES
Commissions, transaction and other fees and loan fees (b)	$ 2,845	$ 1,306	$ 2,473	$ 807	$ 7,431	$ (616)	$ 6,815
Interest revenue	25	1,471	2,180	247	3,923	(136)	3,787
Interest expense	900	1,731	639	133	3,403	(76)	3,327
Operating income (loss)	801	808	549	116	2,274	(85)	2,189
Depreciation expense	964	46	32	55	1,097	--	1,097
Capital expenditures	5,304	27	24	40	5,395	--	5,395
Identifiable assets	27,771	56,495	18,900	26,706	129,872	(5,255)	124,617

	Financial Services-2001						
(in millions)	ILFC	AIGFP(a)	Consumer Finance	Other	Total Reportable Segment	Reclassifications and Eliminations	Total Financial Services
Commissions, transaction and other fees and loan fees (b)	$ 2,613	$ 1,178	$ 2,560	$ 748	$ 7,099	$ (614)	$ 6,485
Interest revenue	33	1,638	2,231	297	4,199	(216)	3,983
Interest expense	850	1,883	753	244	3,730	(134)	3,596
Operating income (loss)	749	758	505	66	2,078	(87)	1,991
Depreciation expense	811	9	34	56	910	--	910
Capital expenditures	4,418	17	39	55	4,529	--	4,529
Identifiable assets	23,424	50,324	16,945	20,008	110,701	(3,379)	107,322

	Financial Services-2000						
(in millions)	ILFC	AIGFP(a)	Consumer Finance	Other	Total Reportable Segment	Reclassifications and Eliminations	Total Financial Services
Commissions, transaction and other fees and loan fees (b)	$ 2,441	$ 1,056	$ 2,325	$ 702	$ 6,524	$ (570)	$ 5,954
Interest revenue	38	1,540	1,956	267	3,801	(244)	3,557
Interest expense	824	1,552	756	282	3,414	(138)	3,276
Operating income (loss)	654	648	386	52	1,740	(74)	1,666
Depreciation expense	729	8	29	67	833	--	833
Capital expenditures	3,435	216	40	57	3,748	--	3,748
Identifiable assets	19,984	41,837	15,460	19,341	96,622	(2,449)	94,173

(a) AIGFP's interest revenue and interest expense are reported as net revenues in the caption "Commissions, transactions and other fees and loan fees".

(b) Commissions, transaction and other fees and loan fees are the sum of the net gain or loss of trading activities, the net change in unrealized gain or loss, the net interest revenues from forward rate agreements and interest rate swaps, and where applicable, management and incentive fees from asset management activities.

2. SEGMENT INFORMATION (continued)

(G) A SUBSTANTIAL PORTION OF AIG'S OPERATIONS IS CONDUCTED IN COUNTRIES OTHER THAN THE UNITED STATES AND CANADA. THE FOLLOWING TABLE SUMMARIZES AIG'S OPERATIONS BY MAJOR GEOGRAPHIC SEGMENT. ALLOCATIONS HAVE BEEN MADE ON THE BASIS OF THE LOCATION OF OPERATIONS AND ASSETS.

	GEOGRAPHIC SEGMENTS-2002			
(in millions)	DOMESTIC(A)	FAR EAST	OTHER FOREIGN	CONSOLIDATED
Revenues (b)	$39,779	$19,223	$ 8,480	$67,482
Real estate and other fixed assets, net of accumulated depreciation	2,529	2,041	812	5,382
Flight equipment primarily under operating leases, net of accumulated depreciation	26,867	--	--	26,867

	Geographic Segments-2001			
(in millions)	Domestic(a)	Far East	Other Foreign	Consolidated
Revenues (b)	$36,191	$17,128	$ 8,447	$61,766
Real estate and other fixed assets, net of accumulated depreciation	2,220	1,824	789	4,833
Flight equipment primarily under operating leases, net of accumulated depreciation	22,710	--	--	22,710

	Geographic Segments-2000			
(in millions)	Domestic(a)	Far East	Other Foreign	Consolidated
Revenues (b)	$33,492	$15,311	$ 7,535	$56,338
Real estate and other fixed assets, net of accumulated depreciation	2,104	1,264	758	4,126
Flight equipment primarily under operating leases, net of accumulated depreciation	19,325	--	--	19,325

(a) Including revenues from general insurance operations in Canada of $225 million, $158 million and $206 million in 2002, 2001 and 2000, respectively.

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

3. FEDERAL INCOME TAXES

(a) AIG and its domestic subsidiaries, excluding the AGC and AIG SunAmerica life insurance companies and their subsidiaries, file a consolidated U.S. Federal income tax return. Each of AGC's and AIG SunAmerica's life insurance companies and their subsidiaries file a consolidated U.S. Federal income tax return.

Revenue Agent's Reports proposing to assess additional taxes for the years 1989-1990 and 1991-1996 have been issued to AIG and Letters of Protest contesting the proposed assessments have been filed with the Internal Revenue Service (IRS). In addition, Revenue Agent's Reports proposing to assess additional taxes for the years ended September 30, 1993-1994 and 1995-1996 have been issued to AIG SunAmerica. Such proposed assessments relate to years prior to AIG's acquisition of SunAmerica Inc. Letters of Protest contesting the proposed assessments have been filed with the IRS. It is management's belief that there are substantial arguments in support of the positions taken by AIG and AIG SunAmerica in their Letters of Protest. AGC's tax years through 1999 have been audited and settled with the IRS. Although the final outcome of any issues raised in connection with these examinations is uncertain, AIG believes that the tax obligation, including interest thereon, will not be significant to AIG's financial condition, results of operations or liquidity.

A component of life insurance surplus accumulated prior to 1984 is not taxable unless it exceeds certain statutory limitations or is distributed to shareholders. This surplus, accumulated in policyholder surplus accounts, totaled approximately $945 million at December 31, 2002. AIG has not made any provision in the accompanying financial statements for taxation of this amount as management has no intention of making any distributions from this surplus.

Foreign income not expected to be taxed in the United States has arisen because AIG's foreign subsidiaries were generally not subject to U.S. income taxes on income earned prior to January 1, 1987. Such income would become subject to U.S. income taxes at current tax rates if remitted to the United States or if other events occur which would make these amounts currently taxable. The cumulative amount of translated undistributed earnings of AIG's foreign subsidiaries currently not subject to U.S. income taxes was approximately $5.1 billion at December 31, 2002. Management presently has not subjected and has no intention of subjecting these accumulated earnings to material U.S. income taxes and no provision has been made in the accompanying financial statements for such taxes.

3. FEDERAL INCOME TAXES (continued)

(B) THE U.S. FEDERAL INCOME TAX RATE IS 35 PERCENT FOR 2002, 2001 AND 2000. ACTUAL TAX EXPENSE ON INCOME DIFFERS FROM THE "EXPECTED" AMOUNT COMPUTED BY APPLYING THE FEDERAL INCOME TAX RATE BECAUSE OF THE FOLLOWING:

(dollars in millions)

YEARS ENDED DECEMBER 31,	2002		2001		2000	
	AMOUNT	PERCENT OF PRE-TAX INCOME	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income
"Expected" tax expense	$ 2,850	35.0%	$ 2,849	35.0%	$ 3,508	35.0%
Adjustments:						
Tax exempt interest	(266)	(3.4)	(277)	(3.4)	(294)	(2.9)
Dividends received deduction	(69)	(0.8)	(64)	(0.8)	(50)	(0.5)
State income taxes	38	0.5	49	0.6	52	0.5
Foreign income not expected to be taxed in the U.S., less foreign income taxes	(93)	(1.1)	(149)	(1.8)	(110)	(1.1)
Affordable housing tax credits	(35)	(0.4)	(37)	(0.5)	(48)	(0.5)
Other	(97)	(1.2)	(32)	(0.4)	(87)	(0.9)
Actual tax expense	$ 2,328	28.6%	$ 2,339	28.7%	$ 2,971	29.6%
Foreign and domestic components of actual tax expense:						
Foreign:						
Current	$ 663		$ 449		$ 450	
Deferred	516		304		131	
Domestic*:						
Current	1,309		1,470		1,244	
Deferred	(160)		116		1,146	
Total	$ 2,328		$ 2,339		$ 2,971	

* Including U.S. tax on foreign income.

PRE-TAX DOMESTIC AND FOREIGN INCOME WAS AS FOLLOWS FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000:

(in millions)

	2002	2001	2000
Domestic*	$ 3,397	$ 3,860	$ 6,471
Foreign*	4,745	4,279	3,552
Total	$ 8,142	$ 8,139	$10,023

* The components of domestic and foreign income and tax expense reflect the location in which the income and tax expense was generated and incurred, respectively.

3. FEDERAL INCOME TAXES (continued)

(C) THE COMPONENTS OF THE NET DEFERRED TAX LIABILITY AS OF DECEMBER 31, 2002 AND DECEMBER 31, 2001 WERE AS FOLLOWS:

(in millions)

	2002	2001
Deferred tax assets:		
Loss reserve discount	$ 1,317	$ 1,269
Unearned premium reserve reduction	465	365
Adjustment to life policy reserves	2,473	1,970
Accruals not currently deductible, cumulative translation adjustment and other	3,035	2,098
	7,290	5,702
Deferred tax liabilities:		
Deferred policy acquisition costs	5,534	4,357
Financial service products mark to market differential	641	622
Depreciation of flight equipment	2,403	1,928
Unrealized appreciation of investments	2,003	590
Other	998	1,086
	11,579	8,583
Net deferred tax liability	$ 4,289	$ 2,881

4. DEFERRED POLICY ACQUISITION COSTS

THE FOLLOWING REFLECTS THE POLICY ACQUISITION COSTS DEFERRED FOR AMORTIZATION AGAINST FUTURE INCOME AND THE RELATED AMORTIZATION CHARGED TO INCOME FOR GENERAL AND LIFE INSURANCE OPERATIONS, EXCLUDING CERTAIN AMOUNTS DEFERRED AND AMORTIZED IN THE SAME PERIOD:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
General insurance operations:			
Balance at beginning of year	$ 2,651	$ 2,438	$ 2,132
Acquisition costs deferred			
Commissions	1,604	1,012	876
Other	1,505	1,217	1,138
	3,109	2,229	2,014
Amortization charged to income			
Commissions	1,025	880	748
Other	1,251	1,136	960
	2,276	2,016	1,708
Balance at end of year	$ 3,484	$ 2,651	$ 2,438
Life insurance operations:			
Balance at beginning of year	$ 16,706	$ 15,298	$ 14,552
Addition from acquisitions	358	874	--
Acquisition costs deferred			
Commissions	2,714	2,244	2,117
Other	1,734	1,341	943
	4,806	4,459	3,060
Amortization charged to income			
Commissions	1,215	1,009	1,376
Other*	969	1,198	182
	2184	2,207	1,558
Effect of net unrealized gains (losses) on securities	(951)	(467)	(361)
Increase (decrease) due to foreign exchange	395	(377)	(395)
Balance at end of year	$ 18,772	$ 16,706	$ 15,298
Total deferred policy acquisition costs	$ 22,256	$ 19,357	$ 17,736

* Includes adjustments as a result of changes in the net unrealized gains or

losses on debt and equity securities available for sale. Such adjustments were included with the change in net unrealized gains/losses on debt and equity securities available for sale that were credited or charged directly to comprehensive income.

5. REINSURANCE

In the ordinary course of business, AIG's general and life insurance companies cede reinsurance to other insurance companies in order to provide greater diversification of AIG's business and limit the potential for losses arising from large risks.

General reinsurance is effected under reinsurance treaties and by negotiation on individual risks. Certain of these reinsurance arrangements consist of excess of loss contracts which protect AIG against losses over stipulated amounts. Ceded premiums are considered prepaid reinsurance premiums and are amortized into income over the contract period in proportion to the protection received. Amounts recoverable from general reinsurers are estimated in a manner consistent with the claims liabilities associated with the reinsurance and presented as a component of reinsurance assets.

AIG life companies limit exposure to loss on any single life. For ordinary insurance, AIG retains a maximum of approximately $1.5 million dollars of coverage per individual life with respect to AIG's overseas life operations and $2.5 million of coverage per individual life with respect to AIG's domestic life operations. There are smaller retentions for other lines of business. Life reinsurance is effected principally under yearly renewable term treaties. The premiums with respect to these treaties are considered prepaid reinsurance premiums and are amortized into income over the contract period in proportion to the protection provided. Amounts recoverable from life reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a component of reinsurance assets.

GENERAL INSURANCE PREMIUMS WRITTEN AND EARNED WERE COMPRISED OF THE FOLLOWING:

(in millions)

YEARS ENDED DECEMBER 31,	WRITTEN	EARNED
2002		
GROSS PREMIUMS	$ 37,537	$ 34,381
CEDED PREMIUMS	(10,123)	(10,112)
NET PREMIUMS	$ 27,414	$ 24,269
2001		
Gross premiums	$ 29,640	$ 28,850
Ceded premiums	(9,539)	(9,485)
Net premiums	$ 20,101	$ 19,365
2000		
Gross premiums	$ 25,050	$ 24,062
Ceded premiums	(7,524)	(6,655)
Net premiums	$ 17,526	$ 17,407

For the years ended December 31, 2002, 2001 and 2000, reinsurance recoveries, which reduced loss and loss expenses incurred, amounted to $10.28 billion, $8.80 billion and $6.00 billion, respectively.

LIFE INSURANCE NET PREMIUM INCOME WAS COMPRISED OF THE FOLLOWING:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
Gross premium income	$ 21,237	$ 19,978	$ 17,925
Ceded premiums	(917)	(915)	(762)
Net premium income	$ 20,320	$ 19,063	$ 17,163

Life insurance recoveries, which reduced death and other benefits, approximated $624 million, $646 million and $331 million, respectively, for the years ended December 31, 2002, 2001 and 2000.

AIG's reinsurance arrangements do not relieve AIG from its direct obligation to its insureds. Thus, a credit exposure exists with respect to both general and life reinsurance ceded to the extent that any reinsurer is unable to meet the obligations assumed under the reinsurance agreements. AIG holds substantial collateral as security under related reinsurance agreements in the form of funds, securities and/or letters of credit. A provision has been recorded for estimated unrecoverable reinsurance. AIG has been largely successful in prior recovery efforts.

AIG evaluates the financial condition of its reinsurers through an internal reinsurance security committee consisting of members of AIG's senior management. No single reinsurer is a material reinsurer to AIG nor is AIG's business substantially dependent upon any reinsurance contract.

LIFE INSURANCE CEDED TO OTHER INSURANCE COMPANIES WAS AS FOLLOWS:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
Life insurance in-force	$278,704	$238,644	$185,705

Life insurance assumed represented 0.2 percent of gross life insurance in-force at December 31, 2002, 2001 and 2000 and life insurance premium income assumed represented 0.2 percent, 0.3 percent and 0.4 percent of gross premium income for the periods ended December 31, 2002, 2001 and 2000.

5. REINSURANCE (continued)

SUPPLEMENTAL INFORMATION FOR GROSS LOSS AND BENEFIT RESERVES NET OF CEDED REINSURANCE AT DECEMBER 31, 2002 AND 2001 FOLLOWS:

(in millions)

	AS REPORTED	NET OF REINSURANCE
2002		
Reserve for losses and loss expenses	$(51,539)	$(30,350)
Future policy benefits for life and accident and health insurance contracts	(72,547)	(71,436)
Premiums and insurance balances receivable-net	13,088	17,279
Reserve for unearned premiums	(16,336)	(12,945)
Reinsurance assets	29,882	--
2001		
Reserve for losses and loss expenses	$(44,792)	$(25,896)
Future policy benefits for life and accident and health insurance contracts	(64,998)	(63,894)
Premiums and insurance balances receivable-net	12,412	16,233
Reserve for unearned premiums	(13,148)	(9,770)
Reinsurance assets	27,199	--

6. RESERVE FOR LOSSES AND LOSS EXPENSES AND FUTURE LIFE POLICY BENEFITS AND POLICYHOLDERS' CONTRACT DEPOSITS

(A) THE FOLLOWING ANALYSIS PROVIDES A RECONCILIATION OF THE ACTIVITY IN THE RESERVE FOR LOSSES AND LOSS EXPENSES:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
At beginning of year:			
Reserve for losses and loss expenses	$ 44,792	$ 40,613	$ 38,252
Reinsurance recoverable	(18,896)	(15,661)	(13,652)
	25,896	24,952	24,600
Acquisitions	--	--	236
Losses and loss expenses incurred:			
Current year	16,741	14,870	13,356
Prior years	4,073	536	(252)
Total	20,814	15,406	13,104
Losses and loss expenses paid:			
Current year	5,964	5,199	5,205
Prior years	10,396	9,263	7,783
Total	16,360	14,462	12,988
At end of year:			
Net reserve for losses and loss expenses	30,350	25,896	24,952
Reinsurance recoverable	21,189	18,896	15,661
Total	$ 51,539	$ 44,792	$ 40,613

(B) THE ANALYSIS OF THE FUTURE POLICY BENEFITS AND POLICYHOLDERS' CONTRACT DEPOSITS LIABILITIES AS AT DECEMBER 31, 2002 AND 2001 FOLLOWS:

(in millions)

	2002	2001
Future policy benefits:		
Long duration contracts	$ 70,096	$ 63,013
Short duration contracts	2,451	1,985
Total	$ 72,547	$ 64,998
Policyholders' contract deposits:		
Annuities	$ 84,903	$ 72,100
Guaranteed investment contracts (GICs)*	37,772	31,551
Corporate life products	2,124	1,977

Universal life	13,080	11,869
Other investment contracts	4,281	1,905
Total	$142,160	$119,402

* Includes approximately $29 billion and $22 billion in the respective years in connection with GIC Programs. See discussion in Note 20 "Special Purpose Vehicles."

(C) Long duration contract liabilities included in future policy benefits, as presented in the table above, result from traditional life products. Short duration contract liabilities are primarily accident and health products. The liability for future life policy benefits has been established based upon the following assumptions:

(i) Interest rates (exclusive of immediate/terminal funding annuities), which vary by territory, year of issuance and products, range from 1.5 percent to 12.0 percent within the first 20 years. Interest rates on immediate/terminal funding annuities are at a maximum of 11.2 percent and grade to not greater than 6.2 percent.

(ii) Mortality and surrender rates are based upon actual experience by geographical area modified to allow for variations in policy form. The weighted average lapse rate, including surrenders, for individual and group life approximated 7.3 percent.

(iii) The portions of current and prior net income and of current unrealized appreciation of investments that can inure to the benefit of AIG are restricted in some cases by the insurance contracts and by the local insurance regulations of the countries in which the policies are in force.

(iv) Participating life business represented approximately 28 percent of the gross insurance in-force at December 31, 2002 and 39 percent of gross premium income in 2002. The amount of annual dividends to be paid is determined locally by the Boards of Directors. Provisions for future dividend payments are computed by jurisdiction, reflecting local regulations.

(D) The liability for policyholders' contract deposits has been established based on the following assumptions:

(i) Interest rates credited on deferred annuities, which vary by territory and year of issuance, range from 1.5 percent to 9.3 percent. Current declared interest rates are generally guaranteed to remain in effect for a period of one year though

6. RESERVE FOR LOSSES AND LOSS EXPENSES AND FUTURE LIFE POLICY BENEFITS AND POLICYHOLDERS' CONTRACT DEPOSITS (continued)

some are guaranteed for longer periods. Withdrawal charges generally range from zero percent to 18.0 percent grading to zero over a period of zero to 15 years.

(ii) Domestically, GICs have market value withdrawal provisions for any funds withdrawn other than benefit responsive payments. Interest rates credited generally range from 1.2 percent to 9.0 percent. The vast majority of these GICs mature within 10 years. Overseas, interest rates credited on GICs generally range from 2.1 percent to 7.3 percent and maturities range from 1 to 5 years.

(iii) Interest rates on corporate life insurance products are guaranteed at 4.0 percent and the weighted average rate credited in 2002 was 5.8 percent.

(iv) The universal life funds have credited interest rates of 3.8 percent to 7.5 percent and guarantees ranging from 3.0 percent to 5.5 percent depending on the year of issue. Additionally, universal life funds are subject to surrender charges that amount to 11.4 percent of the aggregate fund balance grading to zero over a period not longer than 20 years.

(E) Certain products, which are short duration contracts, are subject to experience adjustments. These include group life and group medical products, credit life contracts, accident & health insurance contracts/riders attached to life policies and, to a limited extent, reinsurance agreements with other direct insurers. Ultimate premiums from these contracts are estimated and recognized as revenue and the unearned portions of the premiums are held as reserves. Experience adjustments vary according to the type of contract and the territory in which the policy is in force and are subject to local regulatory guidance.

7. STATUTORY FINANCIAL DATA

STATUTORY SURPLUS AND NET INCOME FOR GENERAL INSURANCE AND LIFE INSURANCE OPERATIONS AS REPORTED TO REGULATORY AUTHORITIES WERE AS FOLLOWS:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
Statutory surplus:			
General insurance	$16,765(A)	$17,717	$16,934
Life insurance	22,716	18,302	16,849
Statutory net income (b):			
General insurance	277(A)	1,922	2,508
Life insurance	2,529	2,106	2,314

(a) Includes loss reserve charge, net of t ax of $1.8 billion.

(b) Includes net realized capital gains and losses.

AIG's insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences are that statutory financial statements do not reflect deferred policy acquisition costs and deferred income taxes, all bonds are carried at amortized cost and reinsurance assets and liabilities are presented net of reinsurance. AIG's use of permitted statutory accounting practices does not have a significant impact on statutory surplus.

8. INVESTMENT INFORMATION

(A) STATUTORY DEPOSITS: Cash and securities with carrying values of $5.20 billion and $4.55 billion were deposited by AIG's subsidiaries under requirements of regulatory authorities as of December 31, 2002 and 2001, respectively.

(B) NET INVESTMENT INCOME: AN ANALYSIS OF THE NET INVESTMENT INCOME FROM THE GENERAL AND LIFE INSURANCE OPERATIONS FOLLOWS:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
General insurance:			
Fixed maturities	$ 1,793	$ 1,811	$ 1,815
Equity securities	245	269	214
Short-term investments	37	64	70
Other	804	941	745
Total investment income	2,879	3,085	2,844
Investment expenses	119	192	143
Net investment income	$ 2,760	$ 2,893	$ 2,701

Life insurance:			
Fixed maturities	$10,381	$ 9,018	$ 8,263
Equity securities	98	146	112
Short-term investments	245	281	332
Interest on mortgage, policy and collateral loans	1,137	1,141	1,075
Other	669	863	479
Total investment income	12,530	11,449	10,261
Investment expenses	256	365	299
Net investment income	$12,274	$11,084	$ 9,962

8. INVESTMENT INFORMATION (continued)

(C) INVESTMENT GAINS AND LOSSES: THE REALIZED CAPITAL GAINS (LOSSES) AND INCREASE (DECREASE) IN UNREALIZED APPRECIATION OF INVESTMENTS WERE AS FOLLOWS:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
Realized capital gains (losses) on investments:			
Fixed maturities (a)	$ (989)	$ (525)	$ (622)
Equity securities	(879)	(114)	340
Other	(573)	(197)	(32)
Realized capital gains (losses)	$(2,441)	$ (836)	$ (314)
Increase (decrease) in unrealized appreciation of investments:			
Fixed maturities	$ 6,600	$ 3,827	$ 2,782
Equity securities	116	(528)	(897)
Other (b)	(1,989)	(1,264)	(418)
Increase (decrease) in unrealized appreciation	$ 4,727	$ 2,035	$ 1,467

(a) The realized gains (losses) resulted primarily from the disposition of available for sale fixed maturities.

(b) Includes $758 million increase, $598 million increase and $51 million increase in unrealized appreciation attributable to participating policy-holders at December 31, 2002, 2001 and 2000, respectively.

THE GROSS GAINS AND GROSS LOSSES REALIZED ON THE DISPOSITION OF AVAILABLE FOR SALE SECURITIES WERE AS FOLLOWS:

(in millions)

	GROSS REALIZED GAINS	GROSS REALIZED LOSSES
2002		
Bonds	$1,811	$2,800
Common stocks	363	1,192
Preferred stocks	12	62
Financial services securities available for sale	2	1
Total	$2,188	$4,055
2001		
Bonds	$1,475	$1,969
Common stocks	437	527
Preferred stocks	14	38
Financial services securities available for sale	7	2
Total	$1,933	$2,536
2000		
Bonds	$ 393	$1,001
Common stocks	791	397
Preferred stocks	47	27
Financial services securities available for sale	8	--
Total	$1,239	$1,425

(D) MARKET VALUE OF FIXED MATURITIES AND UNREALIZED APPRECIATION OF INVESTMENTS: At December 31, 2002 and 2001, the balance of the unrealized appreciation of investments in equity securities (before applicable taxes) included gross gains of approximately $261 million and $403 million and gross losses of approximately $1.0 billion and $1.3 billion, respectively.

The deferred tax liability related to the net unrealized appreciation of investments was $2.0 billion at December 31, 2002 and the deferred tax liability related to the net unrealized appreciation of investments was $590 million at December 31, 2001.

THE AMORTIZED COST AND ESTIMATED MARKET VALUE OF BONDS AVAILABLE FOR SALE AND CARRIED AT MARKET VALUE AT DECEMBER 31, 2002 AND 2001 WERE AS FOLLOWS:

(in millions)

	GROSS	GROSS	ESTIMATED

	AMORTIZED COST	UNREALIZED GAINS	UNREALIZED LOSSES	MARKET VALUE
2002				
Fixed maturities available for sale:				
Bonds:				
U.S. Government (a)	$ 4,916	$ 248	$ 12	$ 5,152
States (b)	41,533	1,984	106	43,411
Foreign governments	33,885	3,371	51	37,205
All other corporate	151,787	8,818	3,988	156,617
Total bonds	$232,121	$ 14,421	$ 4,157	$242,385
2001				
Fixed maturities available for sale:				
Bonds:				
U.S. Government (a)	$ 3,750	$ 121	$ 28	$ 3,843
States (b)	34,202	939	320	34,821
Foreign governments	28,220	2,023	98	30,145
All other corporate	129,939	3,979	2,953	130,965
Total bonds	$196,111	$ 7,062	$ 3,399	$199,774

(a) Including U.S. Government agencies and authorities.

(b) Including municipalities and political subdivisions.

8. INVESTMENT INFORMATION (continued)

THE AMORTIZED COST AND ESTIMATED MARKET VALUES OF FIXED MATURITIES AVAILABLE FOR SALE AT DECEMBER 31, 2002, BY CONTRACTUAL MATURITY, ARE SHOWN BELOW. ACTUAL MATURITIES MAY DIFFER FROM CONTRACTUAL MATURITIES BECAUSE CERTAIN BORROWERS HAVE THE RIGHT TO CALL OR PREPAY CERTAIN OBLIGATIONS WITH OR WITHOUT CALL OR PREPAYMENT PENALTIES.

(in millions)

	AMORTIZED COST	ESTIMATED MARKET VALUE
Fixed maturities available for sale:		
Due in one year or less	$ 11,943	$ 12,163
Due after one year through five years	48,802	50,446
Due after five years through ten years	72,297	75,497
Due after ten years	99,079	104,279
Total available for sale	$232,121	$242,385

(E) SECURITIES AVAILABLE FOR SALE: AIGFP follows a policy of minimizing interest rate, equity and currency risks associated with securities available for sale by entering into swap or other transactions. In addition, to reduce its credit risk, AIGFP has entered into credit derivative transactions with respect to $66 million of securities available for sale. At December 31, 2002, the cumulative decrease in carrying value of the securities available for sale and related hedges as a result of marking to market such securities net of hedging transactions was $28 million.

THE AMORTIZED COST, RELATED HEDGES AND ESTIMATED MARKET VALUE OF SECURITIES AVAILABLE FOR SALE AND CARRIED AT MARKET VALUE AT DECEMBER 31, 2002 AND 2001 WERE AS FOLLOWS:

(in millions)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	UNREALIZED GAINS (LOSSES) - NET ON HEDGING TRANSACTIONS*	ESTIMATED MARKET VALUE
2002					
Securities available for sale:					
Corporate and bank debt	$ 9,595	$ 848	$ 86	$ (777)	$ 9,580
Foreign government obligations	63	13	1	(12)	63
Asset-backed and collateralized	4,181	535	(10)	(572)	4,154
Preferred stocks	1,192	40	7	(31)	1,194
U.S. Government obligations	1,684	147	(2)	(137)	1,696
Total	$16,715	$ 1,583	$ 82	$(1,529)	$16,687
2001					
Securities available for sale:					
Corporate and bank debt	$10,936	$ 198	$ 352	$ 183	$10,965
Foreign government obligations	1,154	8	7	(1)	1,154
Asset-backed and collateralized	4,276	98	83	(41)	4,250
Preferred stocks	1,204	1	14	19	1,210
U.S. Government obligations	223	12	3	(10)	222
Total	$17,793	$ 317	$ 459	$ 150	$17,801

* The cumulative decrease in carrying value of securities available for sale and related hedges as a result of marking to market such securities net of hedging transactions was $28 million.

8. INVESTMENT INFORMATION (continued)

THE AMORTIZED COST AND ESTIMATED MARKET VALUES OF SECURITIES AVAILABLE FOR SALE AT DECEMBER 31, 2002, BY CONTRACTUAL MATURITY, ARE SHOWN BELOW. ACTUAL MATURITIES MAY DIFFER FROM CONTRACTUAL MATURITIES BECAUSE CERTAIN BORROWERS HAVE THE RIGHT TO CALL OR PREPAY CERTAIN OBLIGATIONS WITH OR WITHOUT CALL OR PREPAYMENT PENALTIES.

(in millions)

	AMORTIZED COST	ESTIMATED MARKET VALUE
Securities available for sale:		
Due in one year or less	$ 3,393	$ 3,419
Due after one year through five years	3,801	3,807
Due after five years through ten years	1,480	1,478
Due after ten years	3,860	3,829
Asset-backed and collateralized	4,181	4,154
Total securities available for sale	$16,715	$16,687

Only an insignificant amount of securities available for sale were below investment grade at December 31, 2002.

(F) FINANCE RECEIVABLES: FINANCE RECEIVABLES, NET OF UNEARNED FINANCE CHARGES, WERE AS FOLLOWS:

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
Real estate loans	$ 9,819	$ 7,980	$ 7,670
Non-real estate loans	3,138	3,288	3,157
Credit card loans	1,215	1,091	757
Retail sales finance	1,888	1,845	1,730
Other loans	274	283	505
Total finance receivables	16,334	14,487	13,819
Allowance for losses	(477)	(532)	(492)
Finance receivables, net	$ 15,857	$ 13,955	$ 13,327

(G) CMOS: At December 31, 2002, CMOs, held by AIG's life companies, were presented as a component of bonds available for sale, at market value. Substantially all of the CMOs were investment grade and approximately 24 percent of the CMOs were backed by various U.S. government agencies. The remaining 76 percent were corporate issuances.

THE DISTRIBUTION OF THE CMOS AT DECEMBER 31, 2002 AND 2001 WAS AS FOLLOWS:

(in millions)

	2002	2001
GNMA	1%	3%
FHLMC	13	12
FNMA	9	10
VA	1	1
Non-governmental	76	74
	100%	100%

AIG is not exposed to any significant credit concentration risk of a single or group non-governmental issuer.

At December 31, 2002, the gross weighted average coupon of this portfolio was 6.09 percent. The gross weighted average life of this portfolio was approximately 5.10 years.

At December 31, 2002 and 2001, the market value of the CMO portfolio was $35.61 billion and $32.62 billion, respectively; the amortized cost was approximately $34.30 billion in 2002 and $32.20 billion in 2001. AIG's CMO portfolio is readily marketable. There were no derivative (high risk) CMO securities contained in this portfolio at December 31, 2002 and 2001.

(H) FIXED MATURITIES BELOW INVESTMENT GRADE: At December 31, 2002, fixed maturities held by AIG that were below investment grade or not rated totaled $23.94 billion.

(I) At December 31, 2002, non-income producing invested assets were insignificant.

9. DEBT OUTSTANDING

AT DECEMBER 31, 2002, AIG'S DEBT OUTSTANDING OF $71.89 BILLION, SHOWN BELOW, INCLUDED BORROWINGS OF $64.98 BILLION WHICH WERE EITHER NOT GUARANTEED BY AIG OR WERE MATCHED BORROWINGS UNDER OBLIGATIONS OF GUARANTEED INVESTMENT AGREEMENTS (GIAS) OR MATCHED NOTES AND BONDS PAYABLE.

(in millions)	
Borrowings under obligations of GIAs - AIGFP	$14,850
Commercial Paper:	
ILFC (a)	4,213
AGF (a)	2,956
Funding	1,645
AIGCCC - Taiwan (a)	234
AIGF - Taiwan (a)	64
Total	9,112
Medium Term Notes:	
AGF (a)	7,719
ILFC (a)	4,970
AIG	998
Total	13,687
Notes and Bonds Payable:	
AIGFP	16,940
ILFC(a) (b)	9,825
AGF (a)	2,266
AIG	1,608
AGC	1,542
Total	32,181
Loans and Mortgages Payable:	
AIGCFG (a)	735
AIG	697
ILFC (a) (c)	261
AIG Finance (Hong Kong) Limited (a)	229
Other subsidiaries (a)	133
Total	2,055
Total Borrowings	71,885
Borrowings not guaranteed by AIG	33,605
Matched GIA borrowings - AIGFP	14,850
Matched notes and bonds payable - AIGFP	16,526
	64,981
Remaining borrowings of AIG	$ 6,904

(a) AIG does not guarantee these borrowings.

(b) Includes borrowings under Export Credit Facility of $2.09 billion.

(c) Capital lease obligations.

The amount of long-term borrowings is $49.42 billion and the amount of short-term borrowings is $22.47 billion. Long-term borrowings include commercial paper and short-term borrowings represent borrowings that mature in less than one year.

(A) BORROWINGS UNDER OBLIGATIONS OF GUARANTEED INVESTMENT AGREEMENTS: Borrowings under obligations of guaranteed investment agreements, which are guaranteed by AIG, are recorded at the amount outstanding under each contract. Obligations may be called at various times prior to maturity at the option of the counterparty. Interest rates on these borrowings are primarily fixed, vary by maturity, and range up to 9.8 percent.

PAYMENTS DUE UNDER THESE INVESTMENT AGREEMENTS IN EACH OF THE NEXT FIVE YEARS ENDING DECEMBER 31, AND THE PERIODS THEREAFTER BASED ON THE EARLIEST CALL DATES, WERE AS FOLLOWS:

(in millions)	
2003	$ 5,756
2004	677
2005	383
2006	196
2007	180
Remaining years after 2007	7,658
Total	$14,850

At December 31, 2002, the market value of securities pledged as collateral with respect to these obligations approximated $4.8 billion.

Funds received from GIA borrowings are invested in a diversified portfolio of securities and derivative transactions.

(B) COMMERCIAL PAPER: AT DECEMBER 31, 2002, THE COMMERCIAL PAPER ISSUED AND OUTSTANDING WAS AS FOLLOWS:

(dollars in millions)

	NET BOOK VALUE	UNAMORTIZED DISCOUNT AND ACCRUED INTEREST	FACE AMOUNT	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE MATURITY IN DAYS
ILFC	$4,213	$ 6	$4,219	1.46%	35
AGF	2,956	3	2,959	1.43	33
Funding	1,645	1	1,646	1.45	20
AIGCCC - Taiwan*	234	1	235	2.61	31
AIGF - Taiwan*	64	--	64	4.09	60
Total	$9,112	$ 11	$9,123	--	--

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

At December 31, 2002, AIG did not guarantee the commercial paper of any of its subsidiaries other than Funding. On July 8, 2002, AGC ceased issuing commercial paper under its program. AGC's funding requirements are now being met through Funding's commercial paper program.

9. DEBT OUTSTANDING (continued)

(C) MEDIUM TERM NOTES PAYABLE:

(i) Medium Term Notes Payable Issued by AGF: AGF's Medium Term Notes are unsecured obligations which generally may not be redeemed by AGF prior to maturity and bear interest at either fixed rates set by AGF at issuance or variable rates determined by reference to an interest rate or other formula.

As of December 31, 2002, notes aggregating $7.72 billion were outstanding with maturity dates ranging from 2003 to 2012 at interest rates ranging from 1.48 percent to 7.95 percent. To the extent deemed appropriate, AGF may enter into swap transactions to reduce its effective borrowing rates with respect to these notes.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULE FOR AGF'S OUTSTANDING MEDIUM TERM NOTES WAS AS FOLLOWS:

(in millions)

2003	$ 625
2004	1,898
2005	1,080
2006	1,274
2007	1,356
Remaining years after 2007	1,486
Total	$7,719

(ii) Medium Term Notes Payable Issued by ILFC: ILFC's Medium Term Notes are unsecured obligations which may not be redeemed by ILFC prior to maturity and bear interest at fixed rates set by ILFC at issuance.

As of December 31, 2002, notes aggregating $4.97 billion were outstanding with maturity dates from 2003 to 2007 at interest rates ranging from 3.95 percent to 8.26 percent. These notes provide for a single principal payment at the maturity of each note.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULE FOR ILFC'S OUTSTANDING MEDIUM TERM NOTES WAS AS FOLLOWS:

(in millions)

2003	$2,447
2004	1,053
2005	850
2006	250
2007	370
Total	$4,970

(iii) Medium Term Notes Payable Issued by AIG: AIG's Medium Term Notes are unsecured obligations which generally may not be redeemed by AIG prior to maturity and bear interest at either fixed rates set by AIG at issuance or variable rates determined by reference to an interest rate or other formula.

AN ANALYSIS OF AIG'S MEDIUM TERM NOTES FOR THE YEAR ENDED DECEMBER 31, 2002 WAS AS FOLLOWS:

(in millions)

	AIG	SUNAMERICA INC.	TOTAL
Balance December 31, 2001	$371	$171	$542
Issued during year	504	--	504
Matured during year	(24)	(24)	(48)
BALANCE DECEMBER 31, 2002	$851	$147	$998

The interest rates on AIG's Medium Term Notes range from 0.50 percent to 4.52 percent. To the extent deemed appropriate, AIG may enter into swap transactions to reduce its effective borrowing rates with respect to these notes.

At December 31, 2002, Medium Term Notes issued by SunAmerica Inc. aggregating $147 million had maturity dates ranging from 2003 to 2026 at interest rates ranging from 6.03 percent to 7.34 percent.

During 2000, AIG issued $210 million of equity-linked Medium Term Notes

due May 15, 2007. These notes accrue interest at the rate of 0.50 percent and the total return on these notes is linked to the appreciation in market value of AIG's common stock. The notes may be redeemed, at the option of AIG, as a whole but not in part, at any time on or after May 15, 2003. In conjunction with the issuance of these notes, AIG entered into a series of swap transactions which effectively converted its interest expense to a fixed rate of 7.17 percent until May 15, 2003 and 0.50 percent thereafter and transferred the equity appreciation exposure to a third party for the life of the notes. AIG is exposed to credit risk with respect to the counterparties to these swap transactions.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULE FOR AIG'S OUTSTANDING MEDIUM TERM NOTES, INCLUDING THOSE ISSUED BY SUNAMERICA INC., WAS AS FOLLOWS:

(in millions)	
2003	$162
2004	23
2005	555
2006	24
2007	210
Remaining years after 2007	24
Total	$998

At December 31, 2002, AIG had $140 million of debt securities registered and available for issuance from time to time.

9. DEBT OUTSTANDING (continued)

(D) NOTES AND BONDS PAYABLE:

(I) NOTES AND BONDS PAYABLE ISSUED BY AIGFP: AT DECEMBER 31, 2002, AIGFP'S NOTES AND BONDS OUTSTANDING, THE PROCEEDS OF WHICH ARE INVESTED IN A SEGREGATED PORTFOLIO OF SECURITIES AVAILABLE FOR SALE, WERE AS FOLLOWS:

(dollars in millions)

RANGE OF MATURITIES	CURRENCY	RANGE OF INTEREST RATES	U.S. DOLLAR CARRYING VALUE
2003-2031	U.S. dollar	1.21-6.29%	$ 8,016
2003-2026	United Kingdom pound	3.69-5.74	2,555
2003	Euro	2.82-7.76	1,612
2006-2008	New Zealand dollar	6.30-8.35	628
2003	Japanese yen	0.03-4.50	342
Total			$13,153

AIGFP is also obligated under various bonds maturing from 2003 through 2042. The majority of these notes are denominated in U.S. dollars, Euros and Japanese yen. The weighted average interest rate of these bonds is 4.06 percent. At December 31, 2002, the remaining bonds had a U.S. dollar carrying value of $3.79 billion.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULE FOR AIGFP'S NOTES AND BONDS PAYABLE WAS AS FOLLOWS:

(in millions)	
2003	$ 9,024
2004	1,706
2005	545
2006	596
2007	387
Remaining years after 2007	4,682
Total	$16,940

AIG guarantees all of AIGFP's debt.

(ii) Notes Issued by ILFC: ILFC has issued unsecured obligations which may not be redeemed prior to maturity.

As of December 31, 2002, notes aggregating $7.48 billion were outstanding with maturity dates from 2003 to 2009 and interest rates ranging from 3.32 percent to 8.38 percent. Notes aggregating $1.38 billion are at floating interest rates and the remainder are at fixed rates. These notes provide for a single principal payment at maturity.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULE FOR ILFC'S NOTES WAS AS FOLLOWS:

(in millions)	
2003	$ 950
2004	1,863
2005	826
2006	700
2007	1,954
Remaining years after 2007	1,182
Total	$7,475

ILFC had $6.08 billion of debt securities registered for public sale at December 31, 2002. During the second quarter of 2002, ILFC expanded its Euro Medium Term Note Program from $2.0 billion to $4.0 billion, under which $2.31 billion in notes were sold through December 31, 2002. ILFC has eliminated the currency exposure arising from the notes by either hedging the notes through swaps, or through the offset provided by operating lease payments. ILFC translates the debt into U.S. dollars using current exchange rates. The foreign exchange adjustment for the euro denominated note was $265 million at December 31, 2002. Notes issued under this program are included in Notes and Bonds Payable in the accompanying table of borrowings.

ILFC had a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility

was guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these borrowings depending on the delivery date of the aircraft. At December 31, 2002, ILFC had $2.09 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. Borrowings with respect to this facility are included in Notes and Bonds Payable.

AT DECEMBER 31, 2002, THE FUTURE MINIMUM PAYMENTS FOR ILFC'S BORROWINGS UNDER THE EXPORT CREDIT FACILITY WERE AS FOLLOWS:

(in millions)		
2003	$	284
2004		284
2005		284
2006		284
2007		284
Remaining years after 2007		665
Total		$2,085

AIG does not guarantee any of the debt obligations of ILFC.

(iii) Notes and Bonds Payable Issued by AGF: As of December 31, 2002, AGF notes aggregating $2.27 billion were outstanding with maturity dates ranging from 2003 to 2009 at interest rates ranging from 5.75 percent to 8.45 percent. These notes provide for a single principal payment at maturity.

9. DEBT OUTSTANDING (continued)

AT DECEMBER 31, 2002, THE MATURITY SCHEDULES FOR AGF TERM NOTES AND BONDS WERE AS FOLLOWS:

(in millions)	
2003	$1,368
2004	200
2005	399
2006	--
2007	--
Remaining years after 2007	299
Total	$2,266

AGF had $4.3 billion of debt securities registered and available for issuance at December 31, 2002. AGF uses the proceeds from the issuance of notes and bonds for the funding of its finance receivables.

AIG does not guarantee any of the debt obligations of AGF.

(iv) Notes, Bonds and Debentures Issued by AIG.

(A) Zero Coupon Notes: On October 1, 1984, AIG issued Eurodollar zero coupon notes in the aggregate principal amount at stated maturity of $750 million. The notes were offered at 12 percent of principal amount at stated maturity, bear no interest and are due August 15, 2004. The net proceeds to AIG from the issuance were $86 million. The notes are redeemable at any time in whole or in part at the option of AIG at 100 percent of their principal amount at stated maturity. The notes are also redeemable at the option of AIG or bearer notes may be redeemed at the option of the holder in the event of certain changes involving taxation in the United States at prices ranging from 80.78 percent currently, to 89.88 percent after August 15, 2003, of the principal amount at stated maturity together with accrued amortization of original issue discount from the preceding August 15. During 2002 and 2001, no notes were repurchased. At December 31, 2002, the notes outstanding after prior purchases had a face value of $189 million, an unamortized discount of $31 million and a net book value of $158 million. The amortization of the original issue discount was recorded as interest expense.

(B) Zero Coupon Convertible Senior Debentures: On November 9, 2001, AIG issued zero coupon convertible senior debentures in the aggregate principal amount at stated maturity of $1.52 billion. The notes were offered at 65.8 percent of principal amount at stated maturity, bear no interest unless contingent interest becomes payable under certain conditions and are due November 9, 2031. The net proceeds to AIG were $990 million. Commencing January 1, 2002, holders may convert the debentures into shares of AIG common stock at a conversion rate of 6.0627 shares per $1,000 principal amount of debentures on any day if AIG's common stock price exceeds 120 percent of the conversion price on the last trading day of the preceding fiscal quarter for a set period of time, and after September 30, 2031, on any day if AIG's common stock price exceeds such amount for one day, subject to certain restrictions. The debentures are redeemable by AIG on or after November 9, 2006 at specified redemption prices. Holders may require AIG to repurchase the debentures at specified repurchase prices on November 9, 2006, 2011, 2016, 2021 and 2026. At December 31, 2002, the debentures outstanding had a face value of $1.52 billion, unamortized discount of $504 million and a net book value of $1.02 billion. The amortization of the original issue discount was recorded as a component of other income (deductions)-net.

(C) Italian Lire Bonds: In December, 1991, AIG issued unsecured bonds denominated in Italian Lire that accrued interest at a rate of 11.7 percent per annum. The principal amount of 200 billion Italian Lire Bonds matured December 4, 2001.

(D) Notes and Debentures Issued by SunAmerica Inc.: As of December 31, 2002, notes and debentures issued by SunAmerica Inc. aggregating $434 million (net of amortized discount of $41 million) were outstanding with maturity dates from 2007 to 2097 at interest rates ranging from 5.60 percent to 9.95 percent.

(v) Notes and Bonds Payable Issued by AGC: As of December 31, 2002, AGC notes aggregating $1.54 billion were outstanding with maturity dates ranging from 2003 to 2029 at interest rates ranging up to 7.75 percent.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULES FOR AGC NOTES AND BONDS WERE AS FOLLOWS:

(in millions)	
2003	$ 300
2004	149
2005	297
2006	--
2007	--
Remaining years after 2007	796

Total	$1,542

As of November 2001, AIG guaranteed the notes and bonds of AGC. During 2002, AGC issued $200 million in notes which matured in March 2003. These notes are included in Notes and Bonds Payable in the accompanying table of borrowings.

9. DEBT OUTSTANDING (continued)

(E) LOANS AND MORTGAGES PAYABLE: LOANS AND MORTGAGES PAYABLE AT DECEMBER 31, 2002, CONSISTED OF THE FOLLOWING:

(in millions)

	UNCOLLATERALIZED LOANS PAYABLE	COLLATERALIZED LOANS AND MORTGAGES PAYABLE
ILFC	$ --	$261
AIG Finance (Hong Kong) Limited	229	--
CFG	735	--
AIG	554	143
Other subsidiaries	67	66
Total	$1,585	$470

At December 31, 2002, ILFC's capital lease obligations were $261 million. Fixed interest rates with respect to these obligations range from 6.18 percent to 6.89 percent; variable rates are referenced to LIBOR. These obligations mature through 2005. The flight equipment associated with the capital lease obligations had a net book value of $892 million.

AT DECEMBER 31, 2002, THE MATURITY SCHEDULE FOR ILFC'S CAPITAL LEASE OBLIGATIONS, WERE AS FOLLOWS:

(in millions)

2003	$128
2004	113
2005	45
Total minimum lease obligations	286
Less amount representing interest	25
Present value of net minimum capital lease obligations	$261

(F) AS OF DECEMBER 31, 2002, THE COMBINED PAYMENTS DUE OF ALL SIGNIFICANT DEBT, EXCLUDING COMMERCIAL PAPER, IN EACH OF THE NEXT FIVE YEARS AND PERIODS THEREAFTER WERE AS FOLLOWS:

(in millions)

2003	$22,468
2004	8,186
2005	5,299
2006	3,406
2007	5,004
Remaining years after 2007	18,410
Total	$62,773

(G) REVOLVING CREDIT FACILITIES: AIG and Funding are parties to unsecured syndicated revolving credit facilities (collectively, the Facility) aggregating $2.75 billion. The Facility consists of $1.375 billion in a short-term revolving credit facility and $1.375 billion in a five year revolving credit facility. The Facility can be used for general corporate purposes and also to provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under the Facility, nor were any borrowings outstanding as of December 31, 2002.

AGF is a party to unsecured syndicated revolving credit facilities aggregating $3.0 billion. The facilities consist of $1.5 billion in a short-term revolving credit facility and $1.5 billion in a five year revolving credit facility, which support AGF's commercial paper borrowings. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of December 31, 2002.

ILFC is a party to unsecured syndicated revolving credit facilities aggregating $3.15 billion to support its commercial paper program. The facilities consist of $2.15 billion in a short-term revolving credit facility and $1.0 billion in a three year revolving credit facility. There are currently no borrowings under these facilities, nor were any borrowings outstanding as of December 31, 2002.

(H) INTEREST EXPENSE FOR ALL INDEBTEDNESS: Total interest expense for all

indebtedness, net of capitalized interest, aggregated $3.57 billion in 2002, $3.97 billion in 2001 and $3.64 billion in 2000. Capitalized interest was $61 million in 2002, $71 million in 2001 and $69 million in 2000. Cash distributions on the preferred shareholders' equity in subsidiary companies of ILFC and certain AIG SunAmerica, AGC and HSB subsidiaries are accounted for as interest expense and included as minority interest in the consolidated statement of income. The cash distributions for ILFC were approximately $5 million, $15 million and $19 million for the years ended December 31, 2002, 2001 and 2000, respectively. The cash distributions for the AIG SunAmerica subsidiaries were approximately $8 million, $46 million and $62 million for the years ended December 31, 2002, 2001 and 2000, respectively. The cash distributions for AGC subsidiaries were approximately $129 million, $153 million and $158 million for the years ended December 31, 2002, 2001 and 2000, respectively.

10. PREFERRED SHAREHOLDERS' EQUITY IN SUBSIDIARY COMPANIES

Preferred shareholders' equity in subsidiary companies represents preferred stocks issued by ILFC and certain SunAmerica, AGC and HSB subsidiaries, wholly owned subsidiaries of AIG.

(A) ILFC: At December 31, 2002, the preferred stock consists of 1,000 shares of market auction preferred stock ("MAPS") in two series (Series A and B) of 500 shares each. Each of the MAPS shares has a liquidation value of $100,000 per share and is not convertible. The dividend rate, other than the initial rate, for each dividend period for each series is reset approximately every seven weeks (49 days) on the basis of orders placed in an auction. ILFC repurchased all of the shares of five additional series for their liquidation value in the fourth quarter of 2001 and a sixth in the first six months of 2002. No gains or losses were recognized. During 2001, ILFC extended the term of the Series A to five years at a dividend rate of 5.90 percent. At December 31, 2002, the dividend rate for Series B was 2.15 percent.

(B) AIG SUNAMERICA: The preferred stock consists of $350 million liquidation amount of 7.5% Non-Voting Preferred Interests issued by Total Return LLC, a wholly owned subsidiary of AIG SunAmerica, in March 2000. The preferred stock was redeemed in March 2003.

In March 2001, SunAmerica Capital Trust II redeemed the 8.35% Trust Originated Preferred Securities for $185 million plus accrued and unpaid dividends to the redemption date. Concurrently, AIG SunAmerica redeemed all of the related 8.35% junior subordinated debentures, due 2044, for $191 million plus accrued interest.

In December 2001, SunAmerica Capital Trust III redeemed the 8.30% Trust Originated Preferred Securities for $310 million plus accrued and unpaid dividends to the redemption date. Concurrently, AIG SunAmerica redeemed all of the related 8.30% junior subordinated debentures, due 2045, for $321 million plus accrued interest.

(C) AGC: The preferred stock has been issued by five subsidiary trusts (the subsidiaries).

The sole assets of these subsidiaries are Junior Subordinated Debentures (Subordinated Debentures) issued by AGC. These subsidiaries have no independent operations. The Subordinated Debentures are eliminated in consolidation.

The interest terms and payment dates of the Subordinated Debentures held by the subsidiaries correspond to those of the subsidiaries' preferred securities. AGC's obligations under the Subordinated Debentures and related agreements, when taken together, constitute a full and unconditional guarantee by AGC of payments due on the preferred securities. The Subordinated Debentures are redeemable, under certain conditions, at the option of AGC on a proportionate basis.

The preferred stock consists of $100 million liquidation value of 8.05% preferred stock issued by American General Capital III in December 2000, $300 million liquidation value of 8.5% preferred stock issued by American General Capital II in June 2000, $200 million liquidation value of 7.875% preferred stock issued by American General Capital I in September 1999, $500 million liquidation value of 8.125% preferred stock issued by American General Institutional Capital B in March 1997, and $500 million liquidation value of 7.57% preferred stock issued by American General Institutional Capital A in December 1996.

In July 2001, $215 million liquidation value of 8.125% preferred stock were redeemed by American General Capital, L.L.C. and $287 million liquidation value of 8.45% preferred stock were redeemed by American General Capital, L.L.C.

On March 1, 2000, AGC redeemed 2.3 million shares or $85 million of its 7 percent convertible preferred stock by issuing 3.8 million shares of AGC common stock. On June 30, 2000, holders converted approximately 5 million shares or $250 million of 6 percent convertible preferred securities issued by American General Delaware, L.L.C. into 12.3 million shares of AGC common stock.

(D) HSB: The preferred stock consists of $95 million liquidation value of Exchange Capital Securities issued in July 1997 by HSB Capital I, a statutory business trust wholly owned by HSB. The sole assets of HSB Capital I are invested in debt securities of HSB. The capital securities accrue and pay quarterly cash distributions at a variable rate equal to 90 day LIBOR plus 0.91% of the stated liquidation amount of $1,000 per capital security, which rate was 2.29% at December 31, 2002. The capital securities are not redeemable prior to July 15, 2007 and are mandatorily redeemable upon the maturity of the debt securities on July 15, 2027 or the earlier redemption of the debt securities. AIG has issued a guarantee of the obligations of HSB, which together with the terms of the debt securities, the guarantee of HSB with respect to the capital securities, the indenture and the trust agreement with respect to the trust provide a full and unconditional guarantee of payments due on the capital securities. The trust is accounted for as a wholly owned subsidiary of AIG. The debt securities issued to the trust and the common securities issued by the trust to HSB are eliminated in the consolidated balance sheet.

11. CAPITAL FUNDS

(a) AIG parent depends on its subsidiaries for cash flow in the form of loans, advances and dividends. AIG's insurance subsidiaries are subject to regulatory restrictions on the amount of dividends which can be remitted to AIG parent. These restrictions vary by state. For example, unless permitted by the New York Superintendent of Insurance, general insurance companies domiciled in New York may not pay dividends to shareholders which in any twelve month period exceed the lesser of 10 percent of the company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income", as defined. Generally, less severe restrictions applicable to both general and life insurance companies exist in most of the other states in which AIG's insurance subsidiaries are domiciled. Certain foreign jurisdictions have restrictions which generally cause only a temporary delay in the remittance of dividends. There are also various local restrictions limiting cash loans and advances to AIG by its subsidiaries. Largely as a result of the restrictions, approximately 72 percent of consolidated capital funds were restricted from immediate transfer to AIG parent at December 31, 2002.

(b) At December 31, 2002, there were 6,000,000 shares of AIG's $5 par value serial preferred stock authorized, issuable in series.

(C) THE COMMON STOCK ACTIVITY FOR THE THREE YEARS ENDED DECEMBER 31, 2002 WAS AS FOLLOWS:

	2002	2001	2000(a)
Shares outstanding at beginning of year	2,615,431,999	2,622,605,925	1,836,381,824
Acquired during the year	(10,959,815)	(14,690,943)	(19,677,939)
Issued pursuant to Restricted Stock Unit Obligations	--	580,843	--
Conversion of preferred stock and securities	--	--	9,317,340
Issued under stock option and purchase plans	4,633,631	6,718,336	7,307,010
Issued in connection with acquisitions	176,076	510,684	17,774,094
Issued under contractual obligations	318,940	297,715	63,277
Stock split effected as stock dividend	--	--	814,956,829
Other (b)	--	(590,561)	(43,516,510)
Shares outstanding at end of year	2,609,600,831	2,615,431,999	2,622,605,925

(a) Outstanding shares have been adjusted to reflect the conversion of all outstanding AGC shares by converting each outstanding share of AGC to 0.5790 shares of AIG.

(b) Primarily shares issued to AIG and subsidiaries as part of stock split effected as stock dividend and conversion of SunAmerica Inc. non-transferrable Class B stock to common stock.

Common stock increased and retained earnings decreased $2.04 billion in 2000 as a result of a common stock split in the form of 50 percent common stock dividend paid July 28, 2000.

12. 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) Commitments to extend credit are agreements to lend subject to certain conditions. These commitments generally have fixed expiration dates or termination clauses and typically require payment of a fee. These commitments approximated $400 million and $300 million for December 31, 2002 and 2001, respectively. AIG uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. AIG evaluates each counterparty's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by AIG upon extension of credit, is based on management's credit evaluation of the counterparty.

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

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

AIGFP, in the ordinary course of its operations and as principal, structures derivative transactions to meet the needs of investors who may be seeking to hedge certain aspects of such investors' operations. AIGFP may also

enter into derivative transactions for its own account. Such derivative

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

transactions include interest rate, currency and equity swaps, swaptions and forward commitments. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. AIGFP typically becomes a principal in the exchange of interest payments between the parties and, therefore, may be exposed to loss, if counter-parties default. Currency and equity swaps are similar to interest rate swaps, but involves the exchange of specific currencies or the cashflows based on the underlying equity securities or indices. Also, they may involve the exchange of principal amounts at the beginning and end of the transaction. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction. At December 31, 2002, the notional principal amount of the sum of the swap pays and receives approximated $817.4 billion, primarily related to interest rate swaps of approximately $580.0 billion.

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

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

THE FOLLOWING TABLE PRESENTS AIGFP'S DERIVATIVES PORTFOLIO BY MATURITY AND TYPE OF DERIVATIVE AT DECEMBER 31, 2002 AND DECEMBER 31, 2001:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	Total 2001
Interest rate, currency and equity swaps and swaptions:						
Notional amount:*						
Interest rate swaps	$147,331	$289,463	$128,118	$ 15,082	$579,994	$436,669
Currency swaps	47,120	80,486	42,945	6,436	176,987	139,174
Swaptions and equity swaps	20,672	26,169	9,111	4,484	60,436	58,491
Total	$215,123	$396,118	$180,174	$ 26,002	$817,417	$634,334

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

Futures and forward contracts are contracts for delivery of foreign currencies or financial indices in which the seller/ purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from contracted prices and the potential inability of counter-parties to meet their obligations under the contracts. At December 31, 2002, the contractual amount of AIGFP's futures and forward contracts approximated $54.2 billion.

THE FOLLOWING TABLE PRESENTS AIGFP'S FUTURES AND FORWARD CONTRACTS PORTFOLIO BY MATURITY AND TYPE OF DERIVATIVE AT DECEMBER 31, 2002 AND DECEMBER 31, 2001:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	Total 2001
Exchange traded futures contracts contractual amount	$10,524	--	--	--	$10,524	$10,036
Over the counter forward contracts contractual amount	$43,220	$ 220	$ 187	--	$43,627	$58,003

AIGFP enters into credit derivative transactions in the ordinary course of its business. The overwhelming majority of AIGFP's credit derivatives require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. AIGFP provides such credit protection only on a "second loss" basis, under which AIGFP's payment obligations arise only after credit losses in the designated portfolio exceed a specified threshold amount or level of "first losses." The threshold amount of credit losses that must be realized before AIGFP has any payment obligation is negotiated for each transaction by

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

AIGFP to provide that the likelihood of any payment obligation by AIGFP under each transaction is remote, even in severe recessionary market scenarios.

In many cases, the credit risk associated with a designated portfolio is tranched into different layers of risk, which are then analyzed and rated by the credit rating agencies. Typically, there will be an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers that are rated, generally a BBB rated layer, and A rated layer, an AA rated layer and an AAA rated layer. In transactions that are rated, the risk layer or tranche that is immediately junior to the threshold level above which AIGFP's payment obligation would arise is rated AAA by the rating agencies. For that reason, the risk layer assumed by AIGFP with respect to the designated portfolio in these transactions is often called the "super senior" risk layer, defined as the layer of credit risk senior to a risky layer that has been rated AAA by the credit rating agencies or if the transaction is not rated, equivalent thereto. For example, in a transaction with an equity layer covering credit losses from 0 to 2 percent of the total portfolio, a BBB rated layer covering credit losses from 2 to 4 percent, an A rated layer from 4 to 6 percent, an AA rated layer from 6 to 8 percent and a AAA rated layer from 8 to 11 percent. AIGFP would cover credit losses arising in respect of the portfolio that exceeded an 11 percent first loss threshold amount, and thereby bear risk that is senior to the 8 to 11 percent AAA rated risk layer.

AIGFP continually monitors the underlying portfolios to determine whether the credit loss experience for any particular portfolio has caused the likelihood of AIGFP having a payment obligation under the transaction to be greater than super senior risk. AIGFP maintains the ability opportunistically to hedge specific securities in a portfolio and thereby further limit its exposure to loss, AIGFP has hedged outstanding transactions in this manner on occasion. AIGFP has never had a payment obligation under these credit derivatives transactions. Furthermore, based on portfolio credit losses experienced to date under all outstanding transactions, no transaction has experienced credit losses in an amount that has made the likelihood of AIGFP having to make a payment, in AIGFP's view, to be greater than remote, even in severe recessionary market scenarios. At December 31, 2002, the notional amount with respect to AIGFP's credit derivative portfolio was $125.7 billion.

AIGFP utilizes various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives and margin agreements to reduce the credit exposure relating to these off-balance sheet financial instruments. AIGFP requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties and the transaction's size and maturity. In addition, AIGFP's derivative transactions are generally documented under ISDA Master Agreements. Management believes that such agreements provide for legally enforceable set-off and close out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, AIGFP is permitted to set-off its receivables from a counter-party against its payables to the same counterparty arising out of all included transactions. As a result, the net replacement value represents the net sum of estimated positive fair values after the application of netting agreements excluding collateral held. The net exposure to credit risk or the net replacement value of all interest rate, currency, and equity swaps, swaptions and forward commitments approximated $14.98 billion at December 31, 2002 and $10.84 billion at December 31, 2001. The net replacement value for futures and forward contracts approximated $110 million at December 31, 2002 and $64 million at December 31, 2001. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

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

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

AIGFP DETERMINES COUNTERPARTY CREDIT QUALITY BY REFERENCE TO RATINGS FROM INDEPENDENT RATING AGENCIES OR INTERNAL ANALYSIS. AT DECEMBER 31, 2002 AND DECEMBER 31, 2001, THE COUNTERPARTY CREDIT QUALITY BY DERIVATIVE PRODUCT WITH RESPECT TO THE NET REPLACEMENT VALUE OF AIGFP'S DERIVATIVES PORTFOLIO WAS AS FOLLOWS:

(in millions)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 2002	Total 2001
Counterparty credit quality:				
AAA	$ 7,082	$ 95	$ 7,177	$ 4,388
AA	3,856	15	3,871	3,214
A	2,887	--	2,887	2,498
BBB	1,120	--	1,120	784
Below investment grade	35	--	35	23
Total	$14,980	$ 110	$15,090	$10,907

AT DECEMBER 31, 2002 AND DECEMBER 31, 2001, THE COUNTERPARTY BREAKDOWN BY INDUSTRY WITH RESPECT TO THE NET REPLACEMENT VALUE OF AIGFP'S DERIVATIVES PORTFOLIO WAS AS FOLLOWS:

(in millions)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 2002	Total 2001
Non-U.S. banks	$ 3,310	$ --	$ 3,310	$ 2,464
Insured municipalities	925	--	925	638
U.S. industrials	2,773	--	2,773	2,113
Governmental	520	--	520	563
Non-U.S. financial service companies	474	--	474	428
Non-U.S. industrials	1,452	--	1,452	1,289
Special purpose	3,252	--	3,252	1,851
U.S. banks	416	15	431	72
U.S. financial service companies	1,846	95	1,941	1,211
Supranationals	12	--	12	278
Total	$14,980	$ 110	$15,090	$10,907

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

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

Revenues for the twelve months ended December 31, 2002, 2001 and 2000 from AIGFP's operations were $1.31 billion, $1.18 billion and $1.06 billion, respectively.

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

Futures and forward contracts are contracts for delivery of foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. As a writer of options, AIGTG generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts. At December 31, 2002, the contractual amount of AIGTG's futures, forward and option contracts approximated $424.9 billion.

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The following table provides the contractual and notional amounts and credit exposure, if applicable, by maturity and type of derivative of AIGTG's derivatives portfolio at December 31, 2002 and December 31, 2001. The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at December 31, 2002 and December 31, 2001. These values do not represent the credit risk to AIGTG.

Net replacement values presented represent the net sum of estimated positive fair values after the application of legally enforceable master closeout netting agreements and collateral held. The net replacement values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss within a product category. At December 31, 2002, the net replacement value of AIGTG's futures, forward and option contracts and interest rate and currency swaps approximated $2.3 billion.

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2002	Total 2001
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 11,834	$ 1,451	$ 50	$ --	$ 13,335	$ 14,977
Over the counter forwards	$ 168,572	$ 13,562	$ 1,977	$ 36	$ 184,147	$ 184,102
Over the counter purchased options	$ 72,800	$ 17,657	$ 25,053	$ 252	$ 115,762	$ 138,655
Over the counter sold options (a)	$ 69,247	$ 16,771	$ 25,255	$ 401	$ 111,674	$ 137,661
Notional amount (c):						
Interest rate swaps and forward rate agreements	$ 16,440	$ 33,866	$ 4,613	$ 140	$ 55,059	$ 59,683
Currency swaps	2,351	5,866	327	--	8,544	11,092
Swaptions	3,608	5,789	1,118	--	10,515	7,280
Total	$ 22,399	$ 45,521	$ 6,058	$ 140	$ 74,118	$ 78,055
Credit exposure:						
Futures, forwards swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	$ 5,678	$ 2,861	$ 2,735	$ 46	$ 11,320	$ 10,074
Master netting arrangements	(3,895)	(2,286)	(2,563)	(32)	(8,776)	(6,691)
Collateral	(85)	(96)	(63)	(8)	(252)	(330)
Net replacement value (b)	$ 1,698	$ 479	$ 109	$ 6	$ 2,292	$ 3,053

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

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

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

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

AIGTG DETERMINES COUNTERPARTY CREDIT QUALITY BY REFERENCE TO RATINGS FROM INDEPENDENT RATING AGENCIES OR INTERNAL ANALYSIS. AT DECEMBER 31, 2002 AND DECEMBER 31, 2001, THE COUNTERPARTY CREDIT QUALITY AND COUNTERPARTY BREAKDOWN BY INDUSTRY WITH RESPECT TO THE NET REPLACEMENT VALUE OF AIGTG'S DERIVATIVES PORTFOLIO WERE AS FOLLOWS:

(in millions)

	NET REPLACEMENT VALUE	
	2002	2001
Counterparty credit quality:		
AAA	$ 347	$ 391
AA	622	1,117
A	739	863
BBB	193	330
Below investment grade	63	130
Not externally rated, including exchange traded futures and options*	328	222
Total	$2,292	$3,053
Counterparty breakdown by industry:		
Non-U.S. banks	$ 927	$1,151
U.S. industrials	369	503
Governmental	37	71
Non-U.S. financial service companies	105	187
Non-U.S. industrials	144	190
U.S. banks	157	353
U.S. financial service companies	225	376
Exchanges*	328	222
Total	$2,292	$3,053

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

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

AIGTG limits its risks by holding offsetting positions. In addition, AIGTG monitors and controls its risk exposures through various monitoring systems which evaluate AIGTG's market and credit risks, and through credit approvals and limits. At December 31, 2002, AIGTG did not have a significant concentration of credit risk from either an individual counter-party or group of counterparties.

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

(e) At December 31, 2002, ILFC had committed to purchase 523 aircraft deliverable from 2003 through 2010 at an estimated aggregate purchase price of $29.8 billion and had options to purchase 18 aircraft deliverable from 2003 through 2008 at an estimated aggregate purchase price of $1.3 billion. 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.

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

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter collectively referred to as environmental claims) and indemnity claims asserting injuries from asbestos. Estimation of asbestos and environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1984 and prior years, cannot be estimated by conventional reserving techniques. Asbestos and environmental claims development is affected by factors such as inconsistent court resolutions, the broadening of the intent of policies and scope of coverage and increasing number of new claims. AIG and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue in the future to expand the intent of the policies and the scope of the

coverage, as they have in the past, additional liabilities would emerge for amounts in excess of reserves held. This emergence cannot now be reasonably estimated, but could have a material impact on AIG's future operating results. The reserves carried for these claims as at December 31, 2002 ($2.14 billion gross; $696 million net) are believed to be adequate as these reserves are based on known facts and current law.

AIG's general insurance companies have a special asbestos and environmental (A & E) claims unit actively managing A & E claims. AIG's experienced claims professionals evaluate case reserves for AIG losses at the earliest possible time, reserving to ultimate probable loss based upon known facts, current law, jurisdiction, policy language and other factors. AIG routinely reviews the adequacy of A & E case reserves. AIG does not discount A & E reserves.

12. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

AIG uses primarily two methods to test the A & E reserves. One method, the Market Share method, produces indicated A & E reserve needs by applying the appropriate AIG company market share to estimated potential industry ultimate loss/loss expense based on the latest estimates from A.M. Best and Tillinghast. A second method, a frequency/severity approach, is also utilized. This approach utilizes current information as the basis of an analysis that predicts for the next 10 years (up to the year 2012 with respect to the year ended December 31, 2002), the number of future environmental claims expected and the average severity of each. The trend in frequency created is based upon assumptions judged by AIG to be the most reasonable. The trend in severity starts with initial severities based on actual average current severity (under the varying case adequacy assumptions) and trending forward under assumptions deemed most reasonable by AIG. A similar frequency/severity analysis is also performed for asbestos.

A SUMMARY OF RESERVE ACTIVITY, INCLUDING ESTIMATES FOR APPLICABLE INCURRED BUT NOT REPORTED LOSSES AND LOSS EXPENSES, RELATING TO ASBESTOS AND ENVIRONMENTAL CLAIMS SEPARATELY AND COMBINED AT DECEMBER 31, 2002, 2001 AND 2000 FOLLOWS.

(in millions)

	2002		2001		2000	
	GROSS	NET	Gross	Net	Gross	Net
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 1,114	$ 312	$ 1,100	$ 338	$ 1,093	$ 306
Losses and loss expenses incurred*	395	168	358	92	405	80
Losses and loss expenses paid*	(205)	(80)	(344)	(118)	(398)	(48)
Reserve for losses and loss expenses at end of year	$ 1,304	$ 400	$ 1,114	$ 312	$ 1,100	$ 338
Environmental:						
Reserve for losses and loss expenses at beginning of year	$ 1,115	$ 407	$ 1,345	$ 517	$ 1,519	$ 585
Losses and loss expenses incurred*	(140)	(44)	(41)	(34)	(44)	(45)
Losses and loss expenses paid*	(143)	(67)	(189)	(76)	(130)	(23)
Reserve for losses and loss expenses at end of year	$ 832	$ 296	$ 1,115	$ 407	$ 1,345	$ 517
Combined:						
Reserve for losses and loss expenses at beginning of year	$ 2,229	$ 719	$ 2,445	$ 855	$ 2,612	$ 891
Losses and loss expenses incurred*	255	124	317	58	361	35
Losses and loss expenses paid*	(348)	(147)	(533)	(194)	(528)	(71)
Reserve for losses and loss expenses at end of year	$ 2,136	$ 696	$ 2,229	$ 719	$ 2,445	$ 855

* All amounts pertain to policies underwritten in prior years.

(g) Risk Based Capital (RBC) is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Thus, inadequately capitalized general and life insurance companies may be identified.

The RBC formula develops a risk adjusted target level of adjusted statutory capital by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to actually placing the insurer under regulatory control.

The statutory surplus of each of AIG's domestic general and life insurance subsidiaries exceeded their RBC standards as of December 31, 2002.

To the extent that any of AIG's insurance entities would fall below prescribed levels of surplus, it would be AIG's intention to infuse necessary capital to support that entity.

(h) 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.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" (FAS 107) requires disclosure of fair value information about financial instruments, as defined therein, for which it is practicable to estimate such fair value. These financial instruments may or may not be recognized in the consolidated balance sheet. In the measurement of the fair value of certain financial instruments, quoted market prices were not available and other valuation techniques were utilized. These derived fair value estimates are significantly affected by the assumptions used. FAS 107 excludes certain financial instruments, including those related to insurance contracts.

The following methods and assumptions were used by AIG in estimating the fair value of the financial instruments presented:

Cash and short-term investments: The carrying amounts reported in the consolidated balance sheet for these instruments approximate fair values.

Fixed maturity securities: Fair values for fixed maturity securities carried at amortized cost or at market value were generally based upon quoted market prices. For certain fixed maturity securities for which market prices were not readily available, fair values were estimated using values obtained from independent pricing services. No other fair valuation techniques were applied to these securities as AIG believes it would have to expend excessive costs for the benefits derived.

Equity securities: Fair values for equity securities were based upon quoted market prices.

Mortgage loans on real estate, policy and collateral loans: Where practical, the fair values of loans on real estate and collateral loans were estimated using discounted cash flow calculations based upon AIG's current incremental lending rates for similar type loans. The fair values of the policy loans were not calculated as AIG believes it would have to expend excessive costs for the benefits derived.

Trading assets and trading liabilities: Fair values for trading assets and trading liabilities approximate the carrying values presented in the consolidated balance sheet.

Finance receivables: the fair values of finance receivables were estimated using discounted cash flow calculations based upon the weighted average rates currently being offered for similar finance receivables.

Securities available for sale: Fair values for securities available for sale and related hedges were based on quoted market prices. For securities and related hedges for which market prices were not readily available, fair values were estimated using quoted market prices of comparable investments.

Trading securities: Fair values for trading securities were based on current market value where available. For securities for which market values were not readily available, fair values were estimated using quoted market prices of comparable investments.

Spot commodities: Fair values for spot commodities were based on current market prices.

Unrealized gains and losses on interest rate and currency swaps, options and forward transactions: Fair values for swaps, options and forward transactions were based on the use of valuation models that utilize, among other things, current interest, foreign exchange and volatility rates, as applicable.

Securities purchased (sold) under agreements to resell (repurchase), at contract value: As these securities (obligations) are short-term in nature, the contract values approximate fair values.

Other invested assets: For assets for which market prices were not readily available, fair valuation techniques were not applied as AIG believes it would have to expend excessive costs for the benefits derived.

Policyholders' contract deposits: Fair values of policy-holder contract deposits were estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

GIAs: Fair values of AIG's obligations under investment type agreements were estimated using discounted cash flow calculations based on interest rates currently being offered for similar agreements with maturities consistent with those remaining for the agreements being valued.

Securities and spot commodities sold but not yet purchased: The carrying amounts for the financial instruments approximate fair values. Fair values for spot commodities sold short were based on current market prices.

Trust deposits and deposits due to banks and other depositors: To the extent certain amounts are not demand deposits or certificates of deposit which mature in more than one year, fair values were not calculated as AIG believes it would have to expend excessive costs for the benefits derived.

Commercial paper: The carrying amount of AIG's commercial paper borrowings approximates fair value.

Notes, bonds, loans and mortgages: Where practical, the fair values of

these obligations were estimated using discounted cash flow calculations based upon AIG's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

THE CARRYING VALUES AND FAIR VALUES OF AIG'S FINANCIAL INSTRUMENTS AT DECEMBER 31, 2002 AND DECEMBER 31, 2001 AND THE AVERAGE FAIR VALUES WITH RESPECT TO DERIVATIVE POSITIONS DURING 2002 AND 2001 WERE AS FOLLOWS:

(in millions)

	2002			2001		
	CARRYING VALUE	FAIR VALUE	AVERAGE FAIR VALUE	Carrying Value	Fair Value	Average Fair Value
Assets:						
Fixed maturities	$243,366	$243,366	$ --	$200,616	$200,616	$ --
Equity securities	7,066	7,066	--	7,937	7,937	--
Mortgage loans on real estate, policy and collateral loans	19,928	21,244	--	18,967	19,615	--
Securities available for sale	16,687	16,687	16,796	17,801	17,801	17,096
Finance receivables, net of allowance	15,857	15,888	--	13,955	13,253	--
Trading securities	4,146	4,146	5,071	5,733	5,733	6,387
Spot commodities	489	489	431	352	352	408
Unrealized gain on interest rate and currency swaps, options and forward transactions	15,376	15,376	13,112	11,493	11,493	11,792
Trading assets	4,786	4,786	4,769	6,234	6,234	7,111
Securities purchased under agreements to resell	25,661	25,661	--	21,681	21,681	--
Other invested assets	12,680	12,680	--	12,704	12,704	--
Securities lending collateral	23,694	23,694	--	10,574	10,574	--
Short-term investments	6,993	6,993	--	7,168	7,168	--
Cash	1,165	1,165	--	698	698	--
Liabilities:						
Policyholders' contract deposits	142,160	143,519	--	119,402	116,040	--
Borrowings under obligations of guaranteed investment agreements	14,850	17,256	--	16,392	17,201	--
Securities sold under agreements to repurchase	9,162	9,162	--	11,818	11,818	--
Trading liabilities	3,825	3,825	3,856	4,372	4,372	4,714
Securities and spot commodities sold but not yet purchased	11,765	11,765	9,103	8,331	8,331	7,268
Unrealized loss on interest rate and currency swaps, options and forward transactions	11,265	11,265	9,842	8,813	8,813	9,186
Trust deposits and deposits due to banks and other depositors	2,987	3,045	--	2,290	2,589	--
Commercial paper	9,112	9,112	--	11,892	11,892	--
Notes, bonds, loans and mortgages payable	47,923	49,071	--	37,447	34,640	--

14. STOCK COMPENSATION PLANS

(a) At December 31, 2002, AIG had three types of stock-based compensation plans: (i) a stock option plan; (ii) an incentive stock plan under which restricted stock units had been issued; and (iii) an employee stock purchase plan. AIG applied APB Opinion 25 "Accounting for Stock Issued to Employees" and related Interpretations (APB 25) in accounting for each plan. Accordingly, no compensation costs have been recognized for the plans.

AIG will adopt Statement of Financial Accounting Standards No. 123 "Accounting for Awards of Stock Based Compensation to Employees" (FAS 123) and Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation--Transition and Disclosure" (FAS 148) effective January 1, 2003. FAS 123 requires that the fair value of shares granted under AIG's stock option plan, shares subscribed under AIG's employee stock purchase plan and AIG's restricted stock units be recognized in earnings over the respective vesting periods. The fair value of the stock options granted and the employee purchase plan shares subscribed will be determined through the use of an option-pricing model. The fair value of the restricted stock units is the share market value at the date of the grant. The impact of recognizing the fair value of the AIG's stock compensation is expected to be insignificant to AIG's earnings.

FAS 148 provides transitioning guidance for a voluntary change of the application of FAS 123 and amends the disclosure requirements of FAS 123. Commencing January 1, 2003, AIG will be applying the "Prospective Method" in transitioning to the application of FAS 123. This method transitions the recognition with respect to stock based compensation to those awards granted or shares subscribed on or after January 1, 2003.

The table which follows is not representative of the impact of AIG's 2003 adoption of the Prospective Method with respect to the implementation of FAS 123.

HAD COMPENSATION COSTS FOR THESE PLANS BEEN DETERMINED CONSISTENT WITH THE METHOD OF FAS 123, AIG'S NET INCOME AND EARNINGS PER SHARE FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000 WOULD HAVE BEEN REDUCED TO THE PRO FORMA AMOUNTS AS FOLLOWS:

(in millions, except per share amounts)

	2002	2001	2000
Net income:			
As reported	$ 5,519	$ 5,363	$ 6,639
Pro forma	5,464	5,226	6,593
Earnings per share -- diluted:			
As reported	$ 2.10	$ 2.02	$ 2.52
Pro forma	2.07	1.97	2.50

At December 31, 2002, AIG changed its option-pricing model from the Black-Scholes model to a binomial model (AIG model) that takes possible early exercise of options into account. The model uses the forfeiture and exercise historical experiences to determine the option value. It also takes into account the illiquid nature of employee options, something that the Black-Scholes model does not consider. For these reasons, AIG believes that the AIG model provides a fair value that is more representative of actual historic experience than that value calculated in previous years.

The fair values with respect to 2001 and 2000 were recalculated using the AIG model. The pro forma recognition of such fair value had insignificant impact on the pro forma amounts disclosed above.

The fair values of stock options granted during the three years ended December 31, 2002, 2001, and 2000 were $140 million, $195 million, including $90 million in fair value with respect to shares granted in connection with the AGC acquisition, and $58 million, respectively. The fair value of those options granted in each of the three years was derived using the AIG model.

The following weighted average assumptions were used for stock options granted in 2002, 2001 and 2000, respectively: dividend yields of 0.26 percent, 0.19 percent and 0.17 percent; expected volatilities of 34 percent, 32 percent and 31 percent; risk-free interest rates of 4.33 percent, 4.85 percent and 6.14 percent; and expected terms of 7 years in each year.

Also, included in the above table is the compensation expense with respect to AIG's employee stock purchase plan. The fair value calculated was derived by using the AIG model. The pro forma recognition of such fair value had an insignificant impact on the pro forma amounts disclosed above.

The fair values of purchase privileges granted during the years ended December 31, 2002, 2001 and 2000 were $8 million, $12 million and $9 million, respectively. The weighted average fair values per share of those purchase rights granted in 2002, 2001 and 2000 were $12.42, $17.69 and $18.65, respectively. The fair value of each purchase right was derived at the date of the subscription using the AIG model.

The following weighted average assumptions were used for purchase privileges granted in 2002, 2001 and 2000, respectively: dividend yields of 0.26

percent, 0.19 percent and 0.17 percent; expected volatilities of 34.0 percent, 32.0 percent and 31.0 percent; risk-free interest rates of 1.26 percent, 3.17 percent and 5.92 percent; and expected terms of 1 year.

(I) STOCK OPTION PLAN: On September 15, 1999, the AIG Board of Directors adopted a 1999 stock option plan (the 1999 Plan), which provides that options to purchase a maximum of 15,000,000 shares of common stock can be granted to certain key employees and members of the Board of Directors at prices not less than fair market value at the date of grant. The 1999 Plan limits the maximum number of shares as

14. STOCK COMPENSATION PLANS (continued)

to which stock options may be granted to any employee in any one year to 375,000 shares. Options granted under this Plan expire not more than 10 years from the date of the grant. Options with respect to 27,500 shares, 25,000 shares and 12,000 shares were granted to non-employee members of the Board of Directors on May 15, 2002, May 16, 2001 and May 17, 2000, respectively. These options become exercisable on the first anniversary of the date of grant, expire 10 years from the date of grant and do not qualify for Incentive Stock Option Treatment under the Section 422 of the Internal Revenue Code (ISO Treatment). The Plan, and the options previously granted thereunder, were approved by the shareholders at the 2000 Annual Meeting of Shareholders. At December 31, 2002, 4,140,235 shares were reserved for future grants under the 1999 Plan. The 1999 Plan superseded the 1991 employee stock option plan (the 1991 Plan) and the previously superseded 1987 employee stock option plan (the 1987 Plan), although outstanding options granted under the 1991 Plan continue in force until exercise or expiration. At December 31, 2002, there were 20,537,641 shares reserved for issuance under the 1999 and 1991 Plans.

During 2002 and 2001, AIG granted options with respect to 356,034 shares and 837,275 shares, respectively, which become exercisable on the fifth anniversary of the date of grant and expire 10 years from the date of grant. These options do not qualify for ISO Treatment. The agreements with respect to all other options granted to employees under these plans provide that 25 percent of the options granted become exercisable on the anniversary of the date of grant in each of the four years following that grant and expire 10 years from the date of the grant. As of December 31, 2002, outstanding options granted with respect to 10,234,385 shares qualified for ISO Treatment.

At January 1, 1999, the merger date, SunAmerica Inc. had five stock-based compensation plans pursuant to which options, restricted stock and deferred share and share unit obligations had been issued and remained outstanding. Options granted under these plans had an exercise price equal to the market price on the date of grant, had a maximum term of ten years and generally became exercisable ratably over a five-year period. Substantially all of the SunAmerica Inc. options outstanding at the merger date became fully vested on that date and were converted into options to purchase AIG common stock at the exchange ratio of 0.855 shares of AIG common stock for each share of SunAmerica Inc. common stock. No further options can be granted under the SunAmerica Inc. plans, but outstanding options so converted continue in force until exercise or expiration. At December 31, 2002, there were 18,401,020 shares of AIG common stock reserved for issuance on exercise of options under these plans. None of these options qualified for ISO Treatment as of December 31, 2002.

During 1999, AIG issued 1,009,968 shares of AIG common stock which vested on the effectiveness of the merger with SunAmerica Inc., and an additional 993,031 shares were issued pursuant to deferred share and share unit obligations. During 2000, deferred share and share unit obligations with respect to an additional 1,224,214 shares of AIG common stock vested, 142,105 shares were issued pursuant to deferred share and share unit obligations and an additional 1,082,109 shares were delivered into a trust in connection with a deferred compensation plan. During 2002 and 2001, deferred share and share unit obligations with respect to an additional 1,895 shares and 19,930 shares, respectively, of AIG common stock vested and were issued. No additional deferred share or share unit obligations may be granted under the SunAmerica plans. As of December 31, 2002, deferred share and share unit obligations with respect to 65,657 shares remained outstanding under the SunAmerica plans.

In 1999, the AIG Board of Directors construed the AIG stock option plans to allow deferral of delivery of AIG shares otherwise deliverable upon the exercise of an option to a date or dates specified by the optionee upon the request of an optionee. During 2002, options with respect to 590,048 shares were exercised with delivery deferred. At December 31, 2002, optionees had made valid elections to defer delivery of 439,635 shares of AIG common stock upon exercise of options expiring during 2003.

As a result of the acquisition of HSB in November 2000, HSB options outstanding at the acquisition date were fully vested and were converted into options to purchase AIG common stock at the exchange ratio of 0.4178 shares of AIG common stock for each share of HSB common stock. No further options can be granted under the HSB option plans, but outstanding options so converted continue in force until exercise or expiration. At December 31, 2002, there were 1,413,268 shares of AIG common stock reserved for issuance under the HSB option plans, none of which qualified for ISO Treatment.

At August 29, 2001, AGC had stock-based compensation plans pursuant to which options and restricted share units had been issued and remained outstanding. Options granted under these plans had an exercise price equal to the market price on the date of the grant, had a maximum term of ten years and generally became exercisable ratably over a three-year period. All of the AGC options outstanding at the acquisition date became fully vested on that date and were converted into options to purchase AIG common stock at an exchange ratio of 0.5790 shares of AIG common stock for each share of AGC common stock. No further options can be granted under the AGC plans, but outstanding options so converted continue in force until exercise or expiration. At December 31, 2002, there were 13,862,087 shares of AIG common stock reserved for issuance on exercise of options under these plans. Options with respect to 1,898,266 of these shares qualified for ISO Treatment as of December 31, 2002.

14. STOCK COMPENSATION PLANS (continued)

ADDITIONAL INFORMATION WITH RESPECT TO AIG'S PLANS AT DECEMBER 31, 2002, AND CHANGES FOR THE THREE YEARS THEN ENDED, WERE AS FOLLOWS:

	2002		2001	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	Shares	Weighted Average Exercise Price
Shares Under Option:				
Outstanding at beginning of year	54,295,320	$42.68	38,171,151	$31.53
Outstanding at beginning of year - AGC	--	--	15,100,013	51.87
Granted	5,683,324	66.17	8,771,982	71.56
Assumed upon acquisition from HSB	--	--	--	--
Exercised	(4,242,718)	35.04	(6,209,008)	41.16
Exercised, delivery deferred	(590,048)	6.60	(847,128)	3.76
Forfeited	(931,862)	72.29	(691,690)	55.55
Outstanding at end of year	54,214,016	$45.63	54,295,320	$42.68
Options exercisable at year-end	43,978,843	$39.30	47,346,372	$37.39
Weighted average fair value per share of options granted		$24.65		$22.25

	2000	
	Shares	Weighted Average Exercise Price
Shares Under Option:		
Outstanding at beginning of year	41,415,126	$23.29
Outstanding at beginning of year - AGC	--	--
Granted	2,179,220	95.48
Assumed upon acquisition from HSB	1,605,468	81.43
Exercised	(5,796,592)	13.80
Exercised, delivery deferred	(760,070)	3.06
Forfeited	(472,001)	36.70
Outstanding at end of year	38,171,151	$31.53
Options exercisable at year-end	32,778,411	$24.87
Weighted average fair value per share of options granted		$34.22

In addition, at December 31, 2002, options to purchase 358,594 shares at a weighted average exercise price of $20.31 had been previously granted to AIG non-employee directors and remained outstanding.

INFORMATION ABOUT STOCK OPTIONS OUTSTANDING AT DECEMBER 31, 2002, IS SUMMARIZED AS FOLLOWS:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
Range of Exercise Prices:					
$ 4.47- 14.44	7,380,455	2.0 years	$ 7.87	7,380,455	$ 7.87
15.31- 24.68	8,903,526	3.7 years	20.30	8,903,526	20.30
25.42- 38.43	7,974,008	5.1 years	34.52	7,974,008	34.52
40.24- 57.80	7,823,354	6.4 years	52.32	7,767,954	52.30
58.74- 63.67	9,869,612	7.8 years	60.10	5,346,248	59.17
64.01- 77.17	4,629,753	7.7 years	66.84	4,210,465	66.45
78.65 - 100.57	7,633,308	8.3 years	84.83	2,396,187	88.38
	54,214,016		$45.63	43,978,843	$39.30

(II) 2002 STOCK INCENTIVE PLAN: AIG's 2002 Stock Incentive Plan was adopted at its 2002 shareholders' meeting and amended and restated by the AIG Board of Directors on September 18, 2002. This plan provides that equity-based or equity-related awards with respect to up to a maximum of 16,000,000 shares of common stock can be issued to officers, employees or members of the Board of

Directors of AIG. Under the Plan, no grantee may receive awards covering more than 250,000 shares of common stock. During 2002, AIG granted restricted stock units (RSUs) relating to 171,215 shares of common stock to employees. These RSUs will vest on the fourth anniversary of the date of grant assuming continued employment through such date. AIG reserves the right to make payment for the RSUs in shares of common stock or the cash equivalent on the date of vesting. At December 31, 2002, there were 15,828,785 shares of common stock reserved for issuance in connection with future grants of awards under the Plan.

(III) PERFORMANCE-BASED RESTRICTED STOCK UNITS: During 2002 and 2001, AIG issued performance-based restricted stock units with respect to 4,783 shares and 124,365 shares, respectively, of AIG common stock in connection with contractual obligations as a result of the AGC acquisition.

(IV) EMPLOYEE STOCK PURCHASE PLAN: AIG's 1996 Employee Stock Purchase Plan was adopted at its 1996 shareholders' meeting and became effective as of July 1, 1996. Eligible employees may receive privileges to purchase up to an aggregate of 4,218,750 shares of AIG common stock, at a price equal to 85 percent of the fair market value on the date of the grant of the purchase privilege. Purchase privileges are granted annually and were originally limited to the number of whole shares that could be purchased by an amount equal to 5 percent of an employee's annual salary or $5,500, whichever was less. Beginning with the January 1, 1998

14. STOCK COMPENSATION PLANS (continued)

subscription, the maximum allowable purchase limitation increased to 10 percent of an employee's annual salary or $10,000 per year, whichever is less, and the eligibility requirement was reduced from two years to one year.

There were 274,442 shares, 503,847 shares and 742,773 shares issued under the 1996 plan at weighted average prices of $70.76, $62.02 and $52.66 for the years ended December 31, 2002, 2001 and 2000, respectively. The excess or deficit of the proceeds over the par value or cost of the common stock issued under these plans was credited or charged to additional paid-in capital.

As of December 31, 2002, there were 636,853 shares of common stock subscribed to at a weighted average price of $54.52 per share pursuant to grants of privileges under the 1996 plan. There were 56,720 shares available for the grant of future purchase privileges under the 1996 plan at December 31, 2002.

(b) The following are disclosures with respect to the stock compensation plans of AGC prior to its acquisition by AIG. Both share information and exercise price information have been recalculated to reflect the exchange ratio of 0.5790 shares of AIG common stock for each outstanding share of AGC's common stock. All of AGC's options vested immediately prior to the closing date of the acquisition.

AGC's long-term incentive plans provide for the award of stock options, restricted stock awards, and performance awards to key employees and directors. Stock options constitute the majority of awards. AGC recognized no expense for stock options since the market price equaled the exercise price at the grant date.

For restricted stock and performance awards, the grant date market value was amortized to expense over the vesting period. AGC adjusted the expense to reflect changes in market value of AGC's common stock and anticipated performance levels for those awards with performance criteria.

AGC STOCK OPTION ACTIVITY WAS AS FOLLOWS:

	2000	
	Options (000's)	Average Exercise Price
Balance at January 1	11,405	$48.91
Granted	5,437	55.32
Exercised	(1,084)	35.42
Forfeited	(658)	56.41
Balance at December 31	15,100	$51.87
Exercisable at December 31	5,898	$44.87
Weighted average fair value per share of options granted		$16.93

Options could not be exercised prior to six months after, nor after 10 years from, grant date. For certain stock options, one reload option was granted for each previously-owned share of common stock tendered to exercise options. Reload options vested immediately and were exercisable for the remaining term of the original options. Reload options are no longer being granted.

15. EMPLOYEE BENEFITS

(a) Employees of AIG, its subsidiaries and certain affiliated companies, including employees in foreign countries, are generally covered under various funded and insured pension plans. Eligibility for participation in the various plans is based on either completion of a specified period of continuous service or date of hire, subject to age limitation.

The HSB retirement plan was merged into the AIG U.S. retirement plan effective April 1, 2001. The AGC retirement plan was merged into the AIG U.S. retirement plan effective January 1, 2002.

AIG's U.S. retirement plan is a qualified, noncontributory, defined benefit plan. All qualified employees, other than those of 21st Century, who have attained age 21 and completed twelve months of continuous service are eligible to participate in this plan. An employee with 5 or more years of service is entitled to pension benefits beginning at normal retirement at age 65. Benefits are based upon a percentage of average final compensation multiplied by years of credited service limited to 44 years of credited service with the exception of AGC employees where the credited service limitation is 40 years of credited service. The average final compensation is subject to certain limitations. Annual funding requirements are determined based on the "projected unit credit" cost method which attributes a pro rata portion of the total projected benefit payable at normal retirement to each year of credited service. AIG SunAmerica began participation in the plan on January 1, 2003.

AIG has adopted a Supplemental Executive Retirement Plan (Supplemental Plan) to provide additional retirement benefits to designated executives and key employees. Under the Supplemental Plan, the annual benefit, not to exceed 60 percent of average final compensation, accrues at a percentage of average final pay multiplied for each year of credited service reduced by any benefits from the current and any predecessor retirement plans, Social Security, if any, and from any qualified pension plan of prior employers. The Supplemental Plan also provides a benefit equal to the reduction in benefits payable under the AIG U.S. retirement plan as a result of Federal tax limitations on benefits payable there-under. Currently, the Supplemental Plan is unfunded. AGC has adopted a Supplemental Plan which is similar to AIG's. HSB has adopted a separate Supplemental Plan.

Eligibility for participation in the various non-U.S. retirement plans is either based on completion of a specified period of continuous service or date of hire, subject to age limitation. Where non-U.S. retirement plans are defined benefit plans, they are generally based on the employees' years of credited service and average compensation in the years preceding retirement.

In addition to AIG's defined benefit pension plan, AIG and its subsidiaries provide a postretirement benefit program for medical care and life insurance, domestically and in certain foreign countries. Eligibility in the various plans is generally based upon completion of a specified period of eligible service and reaching a specified age. Benefits vary by geographic location.

AIG's U.S. postretirement medical and life insurance benefits are based upon the employee electing immediate retirement and having a minimum of ten years of service. Retirees who were age 65 by May 1, 1989 and their dependents participate in the medical plan at no cost. Employees who retired after May 1, 1989 and on or prior to January 1, 1993 pay the active employee premium if under age 65 and 50 percent of the active employee premium if over age 65. Retiree contributions are subject to adjustment annually. Other cost sharing features of the medical plan include deductibles, coinsurance and Medicare coordination and a lifetime maximum benefit of $2.0 million. The maximum life insurance benefit prior to age 70 is $32,500, with a maximum of $25,000 thereafter.

Effective January 1, 1993, both plans' provisions were amended. Employees who retire after January 1, 1993 are required to pay the actual cost of the medical benefits premium reduced by a credit which is based on years of service at retirement. The life insurance benefit varies by age at retirement from $5,000 for retirement at ages 55 through 59; $10,000 for retirement at ages 60 through 64 and $15,000 for retirement at ages 65 and over.

(b) AIG sponsors a voluntary savings plan for domestic employees (a 401(k) plan), which, during the three years ended December 31, 2002, provided for salary reduction contributions by employees and matching contributions by AIG of up to 6 percent of annual salary depending on the employees' years of service.

(c) AIG SunAmerica sponsors a voluntary savings plan for its employees (the SunAmerica 401(k) plan), which, during the three years ended December 31, 2002, provided for salary reduction contributions by qualifying employees and matching contributions by AIG SunAmerica of up to 4 percent of qualifying employees' annual salaries. Under an Executive Savings Plan, designated AIG SunAmerica executives also could defer up to 90 percent of cash compensation during the three years ended December 31, 2002, and AIG SunAmerica matched 4 percent of the participants' base salaries deferred.

(d) AGC sponsors a voluntary savings plan for its employees (the AGC 401(k) plan), which provides for salary reduction contributions by employees and matching contributions by AGC of up to 4.5 percent of annual salary.

(e) HSB sponsored a voluntary savings plan for its employees (the HSB 401(k) plan), which provided for salary reduction contributions by employees and matching contributions by HSB of up to 6 percent of annual salary. The HSB voluntary savings plan merged into the AIG voluntary savings plan on January 1, 2002.

15. EMPLOYEE BENEFITS (continued)

(f) AIG has certain benefits provided to inactive employees who are not retirees. Certain of these benefits are insured and expensed currently; other expenses are provided for currently. Such uninsured expenses include medical and life insurance continuation, and COBRA medical subsidies.

THE FOLLOWING TABLE SETS FORTH THE CHANGE IN BENEFIT OBLIGATION, CHANGE IN PLAN ASSETS AND WEIGHTED AVERAGE ASSUMPTIONS ASSOCIATED WITH VARIOUS PENSION PLAN AND POSTRETIREMENT BENEFITS. THE WEIGHTED AVERAGE ACTUARIAL ASSUMPTIONS WITH RESPECT TO ALL PLANS PRESENTED WERE 5.52 PERCENT DISCOUNT RATE, 7.96 PERCENT AS TO THE EXPECTED RETURN ON PLAN ASSETS AND 3.59 PERCENT AS TO THE RATE OF COMPENSATION INCREASE. THE AMOUNTS ARE RECOGNIZED IN THE ACCOMPANYING CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2002 AND 2001:

(in millions)

	PENSION BENEFITS			OTHER BENEFITS		
2002	NON-U.S. PLANS	U.S. PLANS	TOTAL	NON-U.S. PLANS	U.S. PLANS	TOTAL
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 958	$ 1,829	$ 2,787	$ 12	$ 233	$ 245
Service cost	48	74	122	1	4	5
Interest cost	30	141	171	1	16	17
Participant contributions	6	--	6	--	--	--
Actuarial loss	18	182	200	2	24	26
Plan amendments and mergers	(20)	3	(17)	--	(19)	(19)
Benefits paid	(64)	(81)	(145)	--	(20)	(20)
Effect of foreign currency fluctuation	111	--	111	--	--	--
Curtailment	(16)	(2)	(18)	--	--	--
Benefit obligation at end of year	$ 1,071	$ 2,146	$ 3,217	$ 16	$ 238	$ 254
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 455	$ 1,930	$ 2,385	$ --	$ --	$ --
Actual return on plan assets net of expenses	(22)	(234)	(256)	--	--	--
Employer contributions	57	82	139	--	20	20
Participant contributions	6	--	6	--	--	--
Benefits paid	(64)	(81)	(145)	--	(20)	(20)
Effect of foreign currency fluctuation	53	--	53	--	--	--
Curtailment	(6)	--	(6)	--	--	--
Fair value of plan assets at end of year*	$ 479	$ 1,697	$ 2,176	$ --	$ --	$ --
Reconciliation of funded status:						
Funded status	$ (592)	$ (449)	$(1,041)	$ (16)	$ (238)	$ (254)
Unrecognized actuarial (gain)/loss	189	809	998	--	48	48
Unrecognized transition obligation	5	1	6	--	--	--
Unrecognized prior service cost	(15)	20	5	--	(52)	(52)
Net amount recognized at year end	$ (413)	$ 381	$ (32)	$ (16)	$ (242)	$ (258)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	$ 2	$ 520	$ 522	$ --	$ --	$ --
Accrued benefit liability	(583)	(162)	(745)	(16)	(242)	(258)
Intangible asset	168	23	191	--	--	--
Net amount recognized at year end	$ (413)	$ 381	$ (32)	$ (16)	$ (242)	$ (258)

For measurement purposes, a 7.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2002.

The rate was assumed to decrease gradually to 5.0 percent for 2008 and remain at that level thereafter.

* Plan assets are invested primarily in fixed-income securities and listed stocks.

15. EMPLOYEE BENEFITS (continued)

(in millions)

2001	Pension Benefits Non-U.S. Plans	Pension Benefits U.S. Plans	Pension Benefits Total	Other Benefits Non-U.S. Plans	Other Benefits U.S. Plans	Other Benefits Total
Change in benefit obligation:						
Benefit obligation at beginning of year	$ 462	$ 1,415	$ 1,877	$ 10	$ 197	$ 207
Acquisition	533	211	744	--	28	28
Service cost	38	70	108	1	4	5
Interest cost	25	127	152	--	16	16
Participant contributions	5	--	5	--	--	--
Actuarial loss	38	102	140	1	9	10
Plan amendment	--	4	4	--	--	--
Benefits paid	(75)	(90)	(165)	--	(21)	(21)
Effect of foreign currency fluctuation	(59)	--	(59)	--	--	--
Curtailment	(9)	(10)	(19)	--	--	--
Benefit obligation at end of year	$ 958	$ 1,829	$ 2,787	$ 12	$ 233	$ 245
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 255	$ 1,936	$ 2,191	$ --	$ --	$ --
Acquisition	203	277	480	--	--	--
Actual return on plan assets net of expenses	(32)	(227)	(259)	--	--	--
Employer contributions	126	45	171	--	21	21
Participant contributions	5	--	5	--	--	--
Benefits paid	(75)	(90)	(165)	--	(21)	(21)
Asset adjustment	--	(1)	(1)	--	--	--
Effect of foreign currency fluctuation	(25)	--	(25)	--	--	--
Curtailment	(2)	(10)	(12)	--	--	--
Fair value of plan assets at end of year*	$ 455	$ 1,930	$ 2,385	$ --	$ --	$ --
Reconciliation of funded status:						
Funded status	$ (503)	$ 101	$ (402)	$ (12)	$ (233)	$ (245)
Unrecognized actuarial (gain)/loss	131	224	355	--	25	25
Unrecognized transition obligation	6	2	8	--	--	--
Unrecognized prior service cost	4	21	25	--	(38)	(38)
Benefit payments	--	--	--	--	2	2
Net amount recognized at year end	$ (362)	$ 348	$ (14)	$ (12)	$ (244)	$ (256)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	$ 1	$ 492	$ 493	$ --	$ --	$ --
Accrued benefit liability	(458)	(172)	(630)	(12)	(244)	(256)
Intangible asset	95	28	123	--	--	--
Net amount recognized at year end	$ (362)	$ 348	$ (14)	$ (12)	$ (244)	$ (256)

For measurement purposes, an 8.0 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 2001.

The rate was assumed to decrease gradually to 5.0 percent for 2007 and remain at that level thereafter.

* Plan assets are invested primarily in fixed-income securities and listed stocks.

15. EMPLOYEE BENEFITS (continued)

THE NET BENEFIT COST FOR THE YEARS ENDED DECEMBER 31, 2002, 2001, AND 2000 INCLUDED THE FOLLOWING COMPONENTS:

(in millions)

	PENSION BENEFITS			OTHER BENEFITS		
	NON-U.S. PLANS	U.S. PLANS	TOTAL	NON-U.S. PLANS	U.S. PLANS	TOTAL
2002						
Components of net period benefit cost:						
Service cost	$ 48	$ 74	$ 122	$ 1	$ 4	$ 5
Interest cost	30	141	171	1	16	17
Expected return on assets	(19)	(176)	(195)	--	--	--
Amortization of prior service cost	--	2	2	--	(6)	(6)
Amortization of transitional liability	2	1	3	--	--	--
Recognized actuarial loss	15	3	18	--	--	--
Gain due to Curtailment on Settlement	(10)	3	(7)	--	1	1
Net periodic benefit cost	$ 66	$ 48	$ 114	$ 2	$ 15	$ 17
2001						
Components of net period benefit cost:						
Service cost	$ 38	$ 70	$ 108	$ 1	$ 4	$ 5
Interest cost	25	127	152	--	16	16
Expected return on assets	(16)	(204)	(220)	--	--	--
Amortization of prior service cost	2	3	5	--	(4)	(4)
Amortization of transitional liability	2	1	3	--	--	--
Recognized actuarial loss	5	2	7	--	--	--
Gain due to Curtailment on Settlement	(7)	18	11	--	--	--
Net periodic benefit cost	$ 49	$ 17	$ 66	$ 1	$ 16	$ 17
2000						
Components of net period benefit cost:						
Service cost	$ 32	$ 57	$ 89	$ 1	$ 4	$ 5
Interest cost	15	101	116	--	16	16
Expected return on assets	(12)	(172)	(184)	--	--	--
Amortization of prior service cost	2	2	4	--	(4)	(4)
Amortization of transitional liability	2	1	3	--	--	--
Recognized actuarial loss	2	(11)	(9)	--	--	--
Net periodic benefit cost	$ 41	$ (22)	$ 19	$ 1	$ 16	$ 17

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were $1.32 billion, $1.18 billion and $535 million, respectively, as of December 31, 2002 and $1.19 billion, $1.06 billion and $499 million as of December 31, 2001.

At December 31, 2002, there were 1.2 million shares of AIG common stock with a value of $69.9 million included in the plan assets. The benefit plans have purchased annuity contracts from AIG's subsidiaries to provide $56 million of future annual benefits principally to certain AGC retirees.

On December 31, 1998, AIG amended its retirement and postretirement healthcare plan to provide increased benefits to certain employees who retire prior to age 65. Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plan.

A ONE-PERCENTAGE-POINT CHANGE IN ASSUMED HEALTHCARE COST TREND RATES WOULD HAVE THE FOLLOWING EFFECTS:

(in millions)

	1-PERCENTAGE POINT INCREASE	1-PERCENTAGE POINT DECREASE
Effect on total of service and interest cost components	$1	$1
Effect on postretirement benefit obligation	7	7

16. STARR INTERNATIONAL COMPANY, INC. PLAN

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

16. STARR INTERNATIONAL COMPANY, INC. PLAN (continued)

Participation in the SICO Plan by any person, and the amount of such participation, is at the sole discretion of SICO's Board of Directors, and none of the costs of the various benefits provided under such plan is paid by or charged to AIG. The SICO Plan provides that shares currently owned by SICO may be set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors may permit an early pay-out of units under certain circumstances. Prior to pay-out, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's voluntary termination of employment with AIG prior to normal retirement age. In addition, SICO's Board of Directors may elect to pay a participant cash in lieu of shares of AIG common stock. If the expenses of the SICO Plan had been reflected by AIG, the pre-tax amounts accrued would have been $49.4 million, $55.7 million and $76.8 million for 2002, 2001 and 2000, respectively.

17. LEASES

(a) AIG and its subsidiaries occupy leased space in many locations under various long-term leases and have entered into various leases covering the long-term use of data processing equipment.

AT DECEMBER 31, 2002, THE FUTURE MINIMUM LEASE PAYMENTS UNDER OPERATING LEASES WERE AS FOLLOWS:

(in millions)	
2003	$ 477
2004	346
2005	248
2006	179
2007	139
Remaining years after 2007	716
Total	$2,105

Rent expense approximated $503 million, $472 million and $412 million for the years ended December 31, 2002, 2001 and 2000 respectively.

(B) MINIMUM FUTURE RENTAL INCOME ON NONCANCELABLE OPERATING LEASES OF FLIGHT EQUIPMENT WHICH HAVE BEEN DELIVERED AT DECEMBER 31, 2002 WAS AS FOLLOWS:

(in millions)	
2003	$ 2,306
2004	2,081
2005	1,790
2006	1,451
2007	1,145
Remaining years after 2007	2,913
Total	$11,686

Flight equipment is leased, under operating leases, with remaining terms ranging from one to 15 years.

18. 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 Starr International Company, Inc. (SICO), a private holding company, owned or otherwise controlled approximately 21 percent of the voting stock of AIG at December 31, 2002. Six directors of AIG also serve as directors of Starr and SICO.

(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 December 31, 2002. Payment for the production of insurance business to Starr aggregated approximately $116 million in 2002, $88 million in 2001 and $60 million in 2000, from which Starr generally is required to pay commissions due originating brokers and its operating expenses. AIG also received approximately $17 million in 2002 and $14 million in both 2001 and 2000 from Starr and paid approximately $352,000 in 2002, $320,000 in 2001 and $224,000 in 2000 to Starr in rental fees and $262,000 for services in 2002, 2001 and 2000. AIG also received approximately $3 million in 2002 and $4 million in 2001 and $1 million in 2000, respectively, from SICO and paid approximately $1 million in each of the years 2002, 2001 and 2000 to SICO as reimbursement for services rendered at cost. AIG also paid to SICO $5 million in 2002, and $4 million in both 2001 and 2000 in rental fees.

19. ACQUISITION, RESTRUCTURING AND RELATED CHARGES

During the third quarter of 2001, AGC was consolidated into AIG and charges in connection with this acquisition totaled $1.36 billion for that quarter. During the second quarter of 2001, AGC incurred $654 million in connection with the termination of its merger agreement with Prudential plc. Thus, for all of 2001, AIG incurred $2.02 billion of charges in connection with the acquisition of AGC.

With respect to the charges of $1.36 billion incurred in the third quarter of 2001, approximately $512 million was related to direct costs of the acquisition. Of the $512 million, $85 million was attributable to investment banking, legal and accounting fees. The remaining direct costs of $427 million were related to employee severance and other termination benefits, and other compensation costs related to change in control agreements with AGC executives. The costs were also based in part on a projected elimination of positions, in accordance with AIG's post-business combination plans, which were intended to enhance the effectiveness and efficiency of the combined operations.

19. ACQUISITION, RESTRUCTURING AND RELATED CHARGES (continued)

Of the total direct costs of $512 million, $416 million or 82 percent have been paid as of December 31, 2002, including approximately $305 million paid during 2001. In addition, during 2002, $32 million of liabilities were utilized to absorb other insignificant merger-related expenses. The balance, $64 million, is recorded as a component of "Other Liabilities" as of December 31, 2002.

With respect to the elimination of positions, 2,287 terminations were included in AIG's original post-business combination plans. As of December 31, 2002, terminations totaled 1,714, including 609 made during 2001. The remaining 573 terminations are scheduled to occur in 2003, in accordance with AGC's employee termination program.

The indirect costs of $851 million represented charges resulting from post-business combination plans, recognizing that certain assets will have no future economic benefit or ability to generate future revenues. Such charges include asset impairments charges related to software, leasehold improvements and certain goodwill. Also included were certain adjustments associated with conforming AGC's balances to AIG's existing accounting policies and methodologies. Of the $851 million, $782 million had been applied as of December 31, 2002, including $669 million in 2001. The balance, $69 million, remains outstanding and is reflected as a component of "Other Liabilities" as of December 31, 2002.

20. SPECIAL PURPOSE VEHICLES

AIG is a party to numerous entities that may be considered to be Variable Interest Entities (VIEs) under FIN46. Principally, such entities include special purpose vehicles (SPVs). AIG uses SPVs primarily in connection with certain guaranteed investment contract programs (GIC Programs) written by its life insurance subsidiaries, certain products provided by AIGFP, and certain invested asset and asset management activities.

In the GIC Programs, AIG's life insurance subsidiaries (principally SunAmerica Life Insurance Company) provide guaranteed investment contracts (GICs) to SPVs which are not controlled by AIG. The SPVs issue notes or bonds which are sold to third party institutional investors. Neither AIG nor the insurance company issuing the GICs has any obligation to the investors in the notes or bonds. The proceeds from the SPVs issuance of securities are used to invest in the GICs. The insurance company subsidiaries use these proceeds to invest in a diversified portfolio of securities, primarily investment grade bonds. Both the assets and the liabilities of the insurance companies arising from these GIC Programs are presented in AIG's consolidated balance sheet. Thus, at December 31, 2002, approximately $29 billion of policyholders' contract deposits represented liabilities from issuances of GICs included in these GIC Programs, offset by the proceeds from the issuances included as insurance invested assets.

AIGFP uses SPVs as an integral part of its ongoing operations with respect to specific structured transactions with independent third parties. In most instances, AIGFP controls and manages the assets and liabilities with respect to these SPVs, subject to certain transaction specific limitations. These SPVs are fully consolidated by AIG. AIGFP also sponsors an SPV that issues commercial paper and secured liquidity notes to third-party institutional investors. This SPV uses the proceeds of these offerings to obtain beneficial interests in certain financial assets (total assets of approximately $900 million), which serve as collateral for the securities issued by the SPV. AIGFP provides credit and liquidity support to this SPV, which is not consolidated by AIG.

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

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

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

21. SUMMARY OF QUARTERLY FINANCIAL INFORMATION UNAUDITED

THE FOLLOWING QUARTERLY FINANCIAL INFORMATION FOR EACH OF THE THREE MONTHS ENDED MARCH 31, JUNE 30, SEPTEMBER 30 AND DECEMBER 31, 2002 AND 2001 IS UNAUDITED. HOWEVER, IN THE OPINION OF MANAGEMENT, ALL ADJUSTMENTS (CONSISTING OF NORMAL RECURRING ADJUSTMENTS) NECESSARY TO PRESENT FAIRLY THE RESULTS OF OPERATIONS FOR SUCH PERIODS, HAVE BEEN MADE FOR A FAIR PRESENTATION OF THE RESULTS SHOWN.

	THREE MONTHS ENDED							
	MARCH 31,		JUNE 30,		SEPTEMBER 30,		DECEMBER 31,	
(in millions, except per share amounts)	2002	2001	2002	2001	2002	2001	2002	2001
Revenues	$ 16,137	$ 14,793	$ 16,662	$ 15,153	$ 17,150	$ 15,582	$ 17,533	$ 16,238
Net income (loss)	1,980	1,855	1,801	1,315	1,841	327	(103)	1,866
Net income per common share:								
Basic	$ 0.76	$ 0.71	$ 0.69	$ 0.50	$ 0.70	$ 0.12	$ (0.04)	$ 0.72
Diluted	0.75	0.70	0.68	0.50	0.70	0.12	(0.03)	0.70
Average shares outstanding:								
Basic	2,615	2,623	2,613	2,621	2,610	2,620	2,610	2,615
Diluted	2,641	2,651	2,640	2,651	2,634	2,651	2,633	2,645

22. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT BY AGC

THE FOLLOWING CONDENSED CONSOLIDATING FINANCIAL STATEMENTS ARE PROVIDED IN COMPLIANCE WITH REGULATION S-X OF THE SECURITIES AND EXCHANGE COMMISSION. 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.

CONDENSED CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2002

(in millions)	AMERICAN INTERNATIONAL GROUP, INC. GUARANTOR	AGC ISSUER	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED AIG
Assets:					
Invested assets	$ 1,208	$ --	$428,496	$ (6,108)	$423,596
Cash	18	1	1,146	--	1,165
Carrying value of subsidiaries and partially owned companies, at equity	59,003	17,981	12,607	(88,016)	1,575
Other assets	2,450	2,714	130,049	(320)	134,893
Total Assets	$ 62,679	$ 20,696	$572,298	$(94,444)	$561,229
Liabilities:					
Insurance liabilities	$ 422	$ --	$296,474	$ (30)	$296,866
Debt	2,606	3,200	72,356	(6,277)	71,885
Other liabilities	548	3,197	127,716	(239)	131,222
Total Liabilities	3,576	6,397	496,546	(6,546)	499,973
Preferred shareholders' equity in subsidiary companies	--	--	2,153	--	2,153
Total Capital Funds	59,103	14,299	73,599	(87,898)	59,103
Total Liabilities, Preferred Shareholders' Equity in Subsidiary Companies and Capital Funds	$ 62,679	$ 20,696	$572,298	$(94,444)	$561,229

December 31, 2001

(in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Assets:					
Invested assets	$ 1,405	$ --	$359,891	$ (3,371)	$357,925
Cash	1	1	696	--	698
Carrying value of subsidiaries and partially owned companies, at equity	52,117	12,022	3,509	(66,746)	902
Other assets	2,395	2,799	129,276	(934)	133,536
Total Assets	$ 55,918	$ 14,822	$493,372	$(71,051)	$493,061
Liabilities:					
Insurance liabilities	$ 320	$ --	$256,219	$ --	$256,539
Debt	2,119	5,500	61,048	(2,936)	65,731
Other liabilities	1,329	1,267	114,735	(892)	116,439
Total Liabilities	3,768	6,767	432,002	(3,828)	438,709
Preferred shareholders' equity in subsidiary companies	--	--	2,602	(400)	2,202
Total Capital Funds	52,150	8,055	58,768	(66,823)	52,150
Total Liabilities, Preferred Shareholders' Equity in Subsidiary Companies and Capital Funds	$ 55,918	$ 14,822	$493,372	$(71,051)	$493,061

22. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT BY AGC (continued)

CONDENSED CONSOLIDATING STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2002

(in millions)	AMERICAN INTERNATIONAL GROUP, INC. GUARANTOR	AGC ISSUER	OTHER SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED AIG
Operating Income	$ 398	$ --	$ 8,403	$ --	$ 8,801
Equity in undistributed net income of consolidated subsidiaries	4,547	1,182	--	(5,729)	--
Dividend income from consolidated subsidiaries	1,644	532	--	(2,176)	--
Other	(905)	(192)	438	--	(659)
Income taxes (benefits)	165	(56)	2,219	--	2,328
Minority interest	--	--	(295)	--	(295)
Net income (loss)	$ 5,519	$ 1,578	$ 6,327	$(7,905)	$ 5,519

Year ended December 31, 2001

(in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating Income	$ 368	$ --	$ 10,237	$ --	$ 10,605
Equity in undistributed net income of consolidated subsidiaries	3,340	199	--	(3,539)	--
Dividend income from consolidated subsidiaries	2,236	826	--	(3,062)	--
Other	(204)	(1,525)	(737)	--	(2,466)
Income taxes (benefits)	352	(514)	2,501	--	2,339
Minority interest	--	--	(301)	--	(301)
Cumulative effect of accounting changes	(25)	(49)	(62)	--	(136)
Net income (loss)	$ 5,363	$ (35)	$ 6,636	$ (6,601)	$ 5,363

Year ended December 31, 2000

(in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Eliminations	Consolidated AIG
Operating Income	$ 264	$ --	$ 10,092	$ --	$ 10,356
Equity in undistributed net income of consolidated subsidiaries	5,233	659	--	(5,892)	--
Dividend income from consolidated subsidiaries	1,514	557	--	(2,071)	--
Other	(87)	(324)	78	--	(333)
Income taxes (benefits)	285	(111)	2,797	--	2,971
Minority interest	--	--	(413)	--	(413)
Net income (loss)	$ 6,639	$ 1,003	$ 6,960	$ (7,963)	$ 6,639

22. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT BY AGC (continued)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOW

YEAR ENDED DECEMBER 31, 2002

(in millions)	AMERICAN INTERNATIONAL GROUP, INC. GUARANTOR	AGC ISSUER	OTHER SUBSIDIARIES	CONSOLIDATED AIG
Net cash provided by operating activities	$ 2,235	$ 4,054	$ 12,399	$ 18,688
Cash flows from investing:				
Invested assets disposed	(1,203)	--	148,813	147,610
Invested assets acquired	(83)	--	(193,201)	(193,284)
Other	16	(1,684)	744	(924)
Net cash used in investing activities	(1,270)	(1,684)	(43,644)	(46,598)
Cash flows from financing activities:				
Change in debts	68	(2,300)	8,215	5,983
Other	(1,016)	(70)	23,480	22,394
Net cash provided by (used in) financing activities	(948)	(2,370)	31,695	28,377
Change in cash	17	--	450	467
Cash at beginning of year	1	1	696	698
Cash at end of year	$ 18	$ 1	$ 1,146	$ 1,165

Year Ended December 31, 2001

(in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 2,019	$ 51	$ 6,292	$ 8,362
Cash flows from investing:				
Invested assets disposed	(879)	--	142,265	141,386
Invested assets acquired	(535)	--	(171,449)	(171,984)
Other	(75)	(276)	(349)	(700)
Net cash used in investing activities	(1,489)	(276)	(29,533)	(31,298)
Cash flows from financing activities:				
Change in debts	627	604	10,160	11,391
Other	(1,157)	(381)	13,259	11,721
Net cash provided by (used in) financing activities	(530)	223	23,419	23,112
Change in cash	--	(2)	178	176
Cash at beginning of year	1	3	518	522
Cash at end of year	$ 1	$ 1	$ 696	$ 698

Year Ended December 31, 2000

(in millions)	American International Group, Inc. Guarantor	AGC Issuer	Other Subsidiaries	Consolidated AIG
Net cash provided by operating activities	$ 1,358	$ 464	$ 7,259	$ 9,081
Cash flows from investing:				
Invested assets disposed	(677)	--	73,745	73,068
Invested assets acquired	(131)	--	(92,732)	(92,863)
Other	(26)	(72)	(935)	(1,033)
Net cash used in investing activities	(834)	(72)	(19,922)	(20,828)
Cash flows from financing activities:				
Change in debts	579	479	6,771	7,829
Other	(1,105)	(869)	5,988	4,014
Net cash provided by (used in) financing activities	(526)	(390)	12,759	11,843
Change in cash	(2)	2	96	96
Cash at beginning of year	3	1	422	426
Cash at end of year	$ 1	$ 3	$ 518	$ 522

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with accountants on accounting and financial disclosure within the twenty-four months ending December 31, 2002.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Except for the information provided in Part I under the heading "Directors and Executive Officers of the Registrant", this item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 11. Executive Compensation

This item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

This item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions

This item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 14. Controls and Procedures

AIG's disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that AIG files or submits under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by AIG in the reports that it files or submits under the Exchange Act is accumulated and communicated to AIG's management, including AIG's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. AIG's Chief Executive Officer and the Chief Financial Officer have reviewed the effectiveness of AIG's disclosure controls and procedures within 90 days of the filing date of this Annual Report on Form 10-K and have concluded that the disclosure controls and procedures are effective. There were no significant changes in AIG's internal controls or in other factors that could significantly affect these controls subsequent to the most recent date of evaluation by AIG's Chief Executive Officer and Chief Financial Officer.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) FINANCIAL STATEMENTS AND EXHIBITS.

1. Financial Statements and Schedules. See accompanying Index to Financial Statements.
2. Exhibits. See accompanying Exhibit Index.

(b) REPORTS ON FORM 8-K.

During the three months ended December 31, 2002, there were no Current Reports filed on Form 8-K.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THE REGISTRANT HAS DULY CAUSED THIS ANNUAL REPORT ON FORM 10-K TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF NEW YORK AND STATE OF NEW YORK, ON THE 31ST OF MARCH, 2003.

AMERICAN INTERNATIONAL GROUP, INC.

By /S/ M.R. GREENBERG

(M.R. Greenberg, Chairman and Chief Executive Officer)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THIS ANNUAL REPORT ON FORM 10-K HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED ON THE 31ST OF MARCH, 2003 AND EACH OF THE UNDERSIGNED PERSONS, IN ANY CAPACITY, HEREBY SEVERALLY CONSTITUTES M.R. GREENBERG, MARTIN J. SULLIVAN AND HOWARD I. SMITH AND EACH OF THEM, SINGULARLY, HIS TRUE AND LAWFUL ATTORNEY WITH FULL POWER TO THEM AND EACH OF THEM TO SIGN FOR HIM, AND IN HIS NAME AND IN THE CAPACITIES INDICATED BELOW, THIS ANNUAL REPORT ON FORM 10-K AND ANY AND ALL AMENDMENTS THERETO.

SIGNATURE	TITLE
/s/ M.R. Greenberg (M.R. GREENBERG)	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Howard I. Smith (HOWARD I. SMITH)	Vice Chairman, Chief Administrative Officer, Chief Financial Officer and Director (Principal Financial Officer)
/s/ Michael J. Castelli (MICHAEL J. CASTELLI)	Vice President and Comptroller (Principal Accounting Officer)
/s/ M. Bernard Aidinoff (M. BERNARD AIDINOFF)	Director
/s/ Eli Broad (ELI BROAD)	Director
/s/ Pei-yuan Chia (PEI-YUAN CHIA)	Director
/s/ Marshall A. Cohen (MARSHALL A. COHEN)	Director
/s/ Barber B. Conable, Jr. (BARBER B. CONABLE, JR.)	Director

SIGNATURES - (CONTINUED)

SIGNATURE	TITLE
/s/ Martin S. Feldstein (MARTIN S. FELDSTEIN)	Director
/s/ Ellen V. Futter (ELLEN V. FUTTER)	Director
/s/ Carla A. Hills (CARLA A. HILLS)	Director
/s/ Frank J. Hoenemeyer (FRANK J. HOENEMEYER)	Director
/s/ Richard C. Holbrooke (RICHARD C. HOLBROOKE)	Director
/s/ Edward E. Matthews (EDWARD E. MATTHEWS)	Director
/s/ Martin J. Sullivan (MARTIN J. SULLIVAN)	Director
/s/ Thomas R. Tizzio (THOMAS R. TIZZIO)	Director
/s/ Edmund S.W. Tse (EDMUND S.W. TSE)	Director
/s/ Jay S. Wintrob (JAY S. WINTROB)	Director
/s/ Frank G. Wisner (FRANK G. WISNER)	Director
/s/ Frank G. Zarb (FRANK G. ZARB)	Director

CERTIFICATIONS PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, M.R. Greenberg, certify that:

1. I have reviewed this annual report on Form 10-K of American International Group, Inc.;

2. Based on my knowledge, this annual 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 annual report.

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ M.R. Greenberg

M.R. Greenberg
Chairman and Chief Executive Officer

Date: March 31, 2003

CERTIFICATION

I, Howard I. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of American International Group, Inc.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual 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-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Howard I. Smith

Howard I. Smith

Vice Chairman, Chief Financial Officer
and Chief Administrative Officer

Date: March 31, 2003

SCHEDULE I

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS--
OTHER THAN INVESTMENTS IN RELATED PARTIES
AS OF DECEMBER 31, 2002

(in millions)

	COST*	VALUE	AMOUNT AT WHICH SHOWN IN THE BALANCE SHEET
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 4,928	$ 5,165	$ 5,165
States, municipalities and political subdivisions	41,535	43,413	43,413
Foreign governments	34,487	37,818	37,818
Public utilities	15,793	16,383	16,383
All other corporate	136,341	140,587	140,587
Total bonds	233,084	243,366	243,366
Total fixed maturities	233,084	243,366	243,366
Equity securities:			
Common stocks:			
Public utilities	172	155	155
Banks, trust and insurance companies	554	547	547
Industrial, miscellaneous and all other	5,426	4,780	4,780
Total common stocks	6,152	5,482	5,482
Non-redeemable preferred stocks	1,678	1,584	1,584
Total equity securities	7,830	7,066	7,066
Mortgage loans on real estate, policy and collateral loans	19,928	19,928	19,928
Financial services assets:			
Flight equipment primarily under operating leases, net of accumulated depreciation	26,867	--	26,867
Securities available for sale, at market value	16,715	16,687	16,687
Trading securities, at market value	--	4,146	4,146
Spot commodities, at market value	--	489	489
Unrealized gain on interest rate and currency swaps options and forward transactions	--	15,376	15,376
Trading assets	--	4,786	4,786
Securities purchased under agreements to resell, at contract value	25,661	--	25,661
Securities lending collateral	23,694		23,694
Other invested assets	12,680	--	12,680
Finance receivables, net of allowance	15,857	--	15,857
Short-term investments, at cost (approximates market value)	6,993	--	6,993
Total investments	--	--	$423,596

*Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

SCHEDULE II

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET -- PARENT COMPANY ONLY

(in millions)

DECEMBER 31,	2002	2001
ASSETS:		
Cash	$ 18	$ 1
Short-term investments	144	7
Invested assets	1,064	1,398
Carrying value of subsidiaries and partially-owned companies, at equity	59,003	52,117
Premiums and insurance balances receivable-- net	199	145
Other assets	2,251	2,250
TOTAL ASSETS	62,679	55,918
LIABILITIES:		
Insurance balances payable	422	320
Due to affiliates-- net	2,142	894
Medium term notes payable	998	542
Term notes payable	434	433
Zero coupon notes	1,174	1,144
Other liabilities	(1,594)	435
TOTAL LIABILITIES	3,576	3,768
CAPITAL FUNDS:		
Common stock	6,878	6,876
Additional paid-in capital	607	669
Retained earnings	52,270	47,218
Accumulated other comprehensive income (loss)	691	(1,725)
Treasury stock	(1,343)	(888)
TOTAL CAPITAL FUNDS	59,103	52,150
TOTAL LIABILITIES AND CAPITAL FUNDS	$ 62,679	$ 55,918

STATEMENT OF INCOME -- PARENT COMPANY ONLY

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
Agency loss	$ (12)	$ (4)	$ (11)
Financial services income	419	360	280
Asset management income (loss)	(9)	12	(5)
Dividend income from consolidated subsidiaries:			
Cash	1,644	2,194	1,514
Other	--	42	--
Dividend income from partially-owned companies	--	2	--
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	4,547	3,340	5,233
Other income (deductions)-- net	(905)	(206)	(87)
Income before income taxes and cumulative effect of accounting changes	5,684	5,740	6,924
Income taxes	165	352	285
Income before cumulative effect of accounting changes	5,519	5,388	6,639
Cumulative effect of accounting changes, net of tax	--	(25)	--
Net income	$ 5,519	$ 5,363	$ 6,639

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT -- (CONTINUED)
STATEMENT OF CASH FLOWS -- PARENT COMPANY ONLY

(in millions)

YEARS ENDED DECEMBER 31,	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 5,519	$ 5,363	$ 6,639
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Non-cash revenues, expenses, gains and losses included in income:			
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	(4,547)	(3,340)	(5,233)
Change in premiums and insurance balances receivable and payable-- net	48	(4)	7
Change in cumulative translation adjustments	(15)	21	85
Other-- net	1,230	(21)	(140)
Total adjustments	(3,284)	(3,344)	(5,281)
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,235	2,019	1,358
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(83)	(535)	(131)
Sale of investments	415	--	1
Change in short-term investments	(137)	(5)	(1)
Change in collateral and guaranteed loans	--	10	10
Contributions to subsidiaries and investments in partially-owned companies	(1,481)	(884)	(687)
Other-- net	16	(75)	(26)
NET CASH USED IN INVESTING ACTIVITIES	(1,270)	(1,489)	(834)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in medium term notes	456	(40)	101
Change in term notes	1	--	1
Proceeds from issuance of zero coupon notes	--	1,000	--
Redemption of Italian Lire bonds	--	(159)	--
Proceeds from common stock issued	168	233	142
Change in loans payable	(389)	(174)	477
Cash dividends to shareholders	(467)	(383)	(335)
Acquisition of treasury stock	(734)	(978)	(947)
Other-- net	17	(29)	35
NET CASH USED IN FINANCING ACTIVITIES	(948)	(530)	(526)
CHANGE IN CASH	17	--	(2)
CASH AT BEGINNING OF YEAR	1	1	3
CASH AT END OF YEAR	$ 18	$ 1	$ 1

NOTES TO FINANCIAL STATEMENTS-- PARENT COMPANY ONLY

(1) Agency operations conducted in New York through the North American Division of AIU are included in the financial statements of the parent company.

(2) Certain accounts have been reclassified in the 2001 and 2000 financial statements to conform to their 2002 presentation.

(3) "Equity in undistributed net income of consolidated subsidiaries and partially-owned companies" in the accompanying Statement of Income-- Parent Company Only-- includes equity in income of the minority-owned insurance operations.

(4) See also Notes to Consolidated Financial Statements.

SCHEDULE III

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
AS OF DECEMBER 31, 2002, 2001 AND 2000 AND FOR THE YEARS THEN ENDED

(in millions)

Segment	Deferred Policy Acquisition Costs	Reserves for Losses and Loss Expenses, Future Policy Benefits(a)	Reserve for Unearned Premiums	Policy and Contract Claims(b)	Premium Revenue	Net Investment Income	Losses and Loss Expenses Incurred, Benefits	Amortization of Deferred Policy Acquisition Costs(c)	Other Operating Expenses	Net Premiums Written
2002										
GENERAL INSURANCE	$ 3,484	$ 51,539	$16,336	$ --	$24,269	$ 2,760	$20,814	$2,276	$ 2,414	$27,414
LIFE INSURANCE	18,772	72,547	--	1,649	20,320	12,274	21,113	2,184	3,315	--
	$ 22,256	$124,086	$16,336	$ 1,649	$44,589	$15,034	$41,927	$4,460	$ 5,729	$27,414
2001										
General insurance	$ 2,651	$ 44,792	$13,148	$ --	$19,365	$ 2,893	$15,406	$2,016	$ 1,855	$20,101
Life insurance	16,706	64,998	--	1,473	19,063	11,084	19,648	2,207	3,350	--
	$ 19,357	$109,790	$13,148	$ 1,473	$38,428	$13,977	$35,054	$4,223	$ 5,205	$20,101
2000										
General insurance	$ 2,438	$ 40,613	$12,510	$ --	$17,407	$ 2,701	$13,104	$1,708	$ 1,810	$17,526
Life insurance	15,298	51,532	--	1,414	17,163	9,962	17,760	1,558	2,011	--
	$ 17,736	$ 92,145	$12,510	$ 1,414	$34,570	$12,663	$30,864	$3,266	$ 3,821	$17,526

(a) Reserves for losses and loss expenses with respect to the general insurance operations are net of discounts of $1.50 billion, $1.42 billion and $1.29 billion for 2002, 2001 and 2000, respectively.

(b) Reflected in insurance balances payable on the accompanying balance sheet.

(c) Amounts shown for general insurance segment exclude amounts deferred and amortized in the same period.

SCHEDULE IV

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
REINSURANCE
AS OF DECEMBER 31, 2002, 2001 AND 2000 AND FOR THE YEARS THEN ENDED

(dollars in millions)

	GROSS AMOUNT	CEDED TO OTHER COMPANIES	ASSUMED FROM OTHER COMPANIES	NET AMOUNT	PERCENT OF AMOUNT ASSUMED TO NET
2002					
LIFE INSURANCE IN-FORCE	$1,322,404	$278,704	$2,047	$1,045,747	0.2%
PREMIUMS:					
GENERAL INSURANCE	$ 32,718	$ 10,123	$4,819	$ 27,414	17.6%
LIFE INSURANCE	21,201	917	36	20,320*	0.2
TOTAL PREMIUMS	$ 53,919	$ 11,040	$4,855	$ 47,734	10.2%
2001					
Life insurance in-force	$1,226,339	$238,644	$2,162	$ 989,857	0.2%
Premiums:					
General insurance	$ 25,279	$ 9,539	$4,361	$ 20,101	21.7%
Life insurance	19,920	915	58	19,063*	0.3
Total premiums	$ 45,199	$ 10,454	$4,419	$ 39,164	11.3%
2000					
Life insurance in-force	$ 969,919	$185,705	$1,973	$ 786,187	0.3%
Premiums:					
General insurance	$ 20,116	$ 7,524	$4,934	$ 17,526	28.1%
Life insurance	17,850	762	75	17,163*	0.4
Total premiums	$ 37,966	$ 8,286	$5,009	$ 34,689	14.4%

*Includes accident and health premiums of $3.45 billion, $3.18 billion and $2.58 billion in 2002, 2001 and 2000, respectively.

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
2	Plan of acquisition, reorganization, arrangement, liquidation or succession Agreement and Plan of Merger, dated as of May 11, 2001, among American International Group, Inc., Washington Acquisition Corporation and American General Corporation	Incorporated by reference to Exhibit 2.1(i)(a) to AIG's Registration Statement on Form S-4 (File No.333-62688)
3(i)(a)	Restated Certificate of Incorporation of AIG	Incorporated by reference to Exhibit 3(i) to AIG's Annual Report on Form 10-K for the year ended December 31, 1996 (File No. 1-8787).
3(i)(b)	Certificate of Amendment of Certificate of Incorporation of AIG, filed June 3, 1998	Incorporated by reference to Exhibit 3(i) to AIG's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-8787).
3(i)(c)	Certificate of Merger of SunAmerica Inc. with and into AIG, filed December 30, 1998 and effective January 1, 1999	Incorporated by reference to Exhibit 3(i) to AIG's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-8787).
3(i)(d)	Certificate of Amendment of Certificate of Incorporation of AIG, filed June 5, 2000	Incorporated by reference to Exhibit 3(i)(c) to AIG's Registration Statement on Form S-4 (File No. 333-45828).
3(ii)	By-laws of AIG	Incorporated by reference to Exhibit 3(ii) to AIG's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-8787).
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.
9	Voting Trust Agreement	None.
10	Material contracts*	
	(a) AIG 1969 Employee Stock Option Plan and Agreement Form	Filed as exhibit to AIG's Registration Statement (File No. 2-44043) and incorporated herein by reference.
	(b) AIG 1972 Employee Stock Option Plan	Filed as exhibit to AIG's Registration Statement (File No. 2-44702) and incorporated herein by reference.
	(c) AIG 1972 Employee Stock Purchase Plan	Filed as exhibit to AIG's Registration Statement (File No. 2-44043) and incorporated herein by reference.
	(d) AIG 1984 Employee Stock Purchase Plan	Filed as exhibit to AIG's Registration Statement (File No. 2-91945) and incorporated herein by reference.
	(e) AIG 1996 Employee Stock Purchase Plan	Filed as exhibit to AIG's Definitive Proxy Statement dated April 2, 1996 (File No. 1-8787) and incorporated herein by reference.

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* All material contracts are management contracts or compensatory plans or arrangements.

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(f)	AIG 1977 Stock Option and Stock Appreciation Rights Plan	Filed as exhibit to AIG's Registration Statement (File No. 2-59317) and incorporated herein by reference.
(g)	AIG 1982 Employee Stock Option Plan	Filed as exhibit to AIG's Registration Statement (File No. 2-78291) and incorporated herein by reference.
(h)	AIG 1987 Employee Stock Option Plan	Filed as exhibit to AIG's Definitive Proxy Statement dated April 6, 1987 (File No. 0-4652) and incorporated herein by reference.
(i)	AIG 1991 Employee Stock Option Plan	Filed as exhibit to AIG's Definitive Proxy Statement dated April 4, 1997 (File No. 1-8787) and incorporated herein by reference.
(j)	AIG 1999 Stock Option Plan	Filed as exhibit to AIG's Definitive Proxy Statement dated April 6, 2000 (File No. 1-8787) and incorporated herein by reference.
(k)	AIG Amended and Restated 2002 Stock Incentive Plan	Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-101967).
(l)	AIG Executive Deferred Compensation Plan	Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-101640).
(m)	AIG Supplemental Incentive Savings Plan	Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-101640).
(n)	AIRCO 1972 Employee Stock Option Plan	Incorporated by reference to AIG's Joint Proxy Statement and Prospectus (File No. 2-61994).
(o)	AIRCO 1977 Stock Option and Stock Appreciation Rights Plan	Incorporated by reference to AIG's Joint Proxy Statement and Prospectus (File No. 2-61994).
(p)	Purchase Agreement between AIA and Mr. E.S.W. Tse.	Incorporated by reference to Exhibit 10(l) to AIG's Annual Report on Form 10-K for the year ended December 31, 1997 (File No. 1-8787).
(q)	Retention and Employment Agreement between AIG and Jay S. Wintrob	Incorporated by reference to Exhibit 10(m) to AIG's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-8787).
(r)	SunAmerica Inc. 1988 Employee Stock Plan	Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-70069).
(s)	SunAmerica 1997 Employee Incentive Stock Plan	Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-70069).
(t)	SunAmerica Non-employee Directors' Stock Option Plan	Incorporated by reference to Exhibit 4(c) to AIG's Registration Statement on Form S-8 (File No. 333-70069).
(u)	SunAmerica 1995 Performance Stock Plan	Incorporated by reference to Exhibit 4(d) to AIG's Registration Statement on Form S-8 (File No. 333-70069).
(v)	SunAmerica Inc. 1998 Long-Term Performance-Based Incentive Plan For the Chief Executive Officer	Incorporated by reference to Exhibit 4(e) to AIG's Registration Statement on Form S-8 (File No. 333-70069).

EXHIBIT NUMBER		DESCRIPTION	LOCATION
	(w)	SunAmerica Inc. Long-Term Performance-Based Incentive Plan Amended and Restated 1997	Incorporated by reference to Exhibit 4(f) to AIG's Registration Statement on Form S-8 (File No. 333-70069).
	(x)	SunAmerica Five Year Deferred Cash Plan	Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-31346).
	(y)	SunAmerica Executive Savings Plan	Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-31346).
	(z)	HSB Group, Inc. 1995 Stock Option Plan	Incorporated by reference to Exhibit 10(iii)(f) to HSB's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-13135).
	(aa)	HSB Group, Inc. 1985 Stock Option Plan	Incorporated by reference to Exhibit 10(iii)(a) HSB's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (File No. 1- 13135).
	(bb)	HSB Group, Inc. Employee's Thrift Incentive Plan	Incorporated by reference to Exhibit 4(i)(c) to The Hartford Steam Boiler Inspection and Insurance Company's Registration Statement on Form S-8 (File No. 33-36519).
	(cc)	American General Corporation 1984 Stock and Incentive Plan	Incorporated by reference to Exhibit 10.1 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No.1-7981)
	(dd)	Amendment to American General Corporation 1984 Stock and Incentive Plan (January 2000)	Incorporated by reference to Exhibit 10.2 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7981)
	(ee)	American General Corporation 1994 Stock and Incentive Plan (January 2000)	Incorporated by reference to Exhibit 10.2 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7981)
	(ff)	Amendment to American General Corporation 1994 Stock and Incentive Plan (January 1999)	Incorporated by reference to Exhibit 10.4 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7981)
	(gg)	Amendment to American General Corporation 1994 Stock and Incentive Plan (January 2000)	Incorporated by reference to Exhibit 10.5 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7981)
	(hh)	Amendment to American General Corporation 1994 Stock and Incentive Plan (November 2000)	Incorporated by reference to Exhibit 10.1 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30,2000 (File No. 1-7981)

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(ii)	American General Corporation 1997 Stock and Incentive Plan	Incorporated by reference to Exhibit 10.3 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998 (File No. 1-7981)
(jj)	Amendment to American General Corporation 1997 Stock and Incentive Plan (January 1999)	Incorporated by reference to Exhibit 10.7 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7981)
(kk)	Amendment to American General Corporation 1997 Stock and Incentive Plan (November 2000)	Incorporated by reference to Exhibit 10.2 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File No. 1-7981)
(ll)	American General Corporation 1999 Stock and Incentive Plan	Incorporated by reference to Exhibit 10.4 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-7981)
(mm)	Amendment to American General Corporation 1999 Stock and Incentive Plan (January 1999)	Incorporated by reference to Exhibit 10.9 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 1-7981)
(nn)	Amendment to American General Corporation 1999 Stock and Incentive Plan (November 2000)	Incorporated by reference to Exhibit 10.3 to American General Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30,2000 (File No. 1-7981)
(oo)	Amended and Restated American General Corporation Deferred Compensation Plan (12/11/00)	Incorporated by reference to Exhibit 10.13 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7981)
(pp)	Amended and Restated Restoration of Retirement Income Plan for Certain Employees Participating in the Restated American General Retirement Plan (Restoration of Retirement Income Plan) (12/31/98)	Incorporated by reference to Exhibit 10.14 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7981)
(qq)	Amended and Restated American General Supplemental Thrift Plan (12/31/98)	Incorporated by reference to Exhibit 10.15 to American General Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-7981)
(rr)	American General Employees' Thrift and Incentive Plan (restated July 1, 2001)	Incorporated by reference to Exhibit 4(a) to AIG's Registration Statement on Form S-8 (File No. 333-68640)

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(ss)	American General Agents' and Managers' Thrift and Incentive Plan (restated July 1, 2001)	Incorporated by reference to Exhibit 4(b) to AIG's Registration Statement on Form S-8 (File No. 333-68640)
(tt)	CommLoCo Thrift Plan (restated July 1, 2001)	Incorporated by reference to Exhibit 4(c) to AIG's Registration Statement on Form S-8 (File No. 68640)
(uu)	Western National Corporation 1993 Stock and Incentive Plan, as amended	Incorporated by reference to Exhibit 10.18 to Western National Corporation's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-12540)
(vv)	USLIFE Corporation 1991 Stock Option Plan, as amended	Incorporated by reference to USLIFE Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 (File No. 1-5683)
(ww)	Employment Agreement, Amendment to Employment Agreement, Second Amendment to Employment Agreement, Split-Dollar Agreement, including Assignment of Life Insurance Policy as Collateral, and First Amendment to Split-Dollar Agreement, with John A. Graf	Filed herewith.
(xx)	Employment Agreement, Amendment to Employment Agreement, and Split-Dollar Agreement, including Assignment of Life Insurance Policy as Collateral, with Rodney O. Martin, Jr.	Filed herewith.
11	Statement re computation of per share earnings	Included in Note 1(x) of Notes to Financial Statements.
12	Statements re computation of ratios	Filed herewith.
13	Annual report to security holders	Not required to be filed.
16	Letter re change in certifying accountant	Not required to be filed.
18	Letter re change in accounting principles	None.
21	Subsidiaries of the Registrant	Filed herewith.
23	Consent of PricewaterhouseCoopers LLP	Filed herewith.
24	Power of attorney	Included on the signature page hereof.
99	Additional exhibits	None.

EXHIBIT 10(ww)

EMPLOYMENT AGREEMENT

AGREEMENT by and among American International Group, Inc., a Delaware corporation (the "Parent"), American General Corporation, a Texas corporation (the "Company"), and John A. Graf (the "Executive") dated as of the 11th day of May, 2001.

Parent has determined that it is in the best interests of Parent and the Company and their respective shareholders to assure that the Company will have the continued services of the Executive following the merger (the "Merger") of the Company and Washington Acquisition Corporation, a Texas corporation and a wholly owned subsidiary of Parent ("Merger Sub"), pursuant to the Agreement and Plan of Merger dated as of May 11th, 2001 (the "Merger Agreement"), to provide the surviving corporation after the Merger with continuity of management. Pursuant to the terms of the Prior Agreement (as defined below), Executive would have had the right to terminate his employment upon consummation of the Merger. However, Parent desires to retain the Executive's continued services pursuant to the terms of this Agreement. Therefore, in order to accomplish these objectives, Parent, the Company and the Executive agree as follows:

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Effective Date. The "Effective Date" shall mean the "Effective Date" (as defined in the Merger Agreement) of the Merger. This Agreement shall be and become effective on the Effective Date. If the Effective Date does not occur on or before February 28, 2002 or if the Merger Agreement is earlier terminated in accordance with its terms, then this Agreement shall terminate automatically on February 28, 2002 or on such earlier Merger Agreement termination date and none of Parent, the Company or the Executive shall have any obligation to the other hereunder.

2. Employment Period. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to continue to serve the Company, subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary thereof (the "Employment Period").

3. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive shall serve in the position set forth on Exhibit A attached hereto, with the duties and responsibilities associated with such position on the Effective Date (except to the extent expressly provided in Exhibit A) as shall be assigned to him by the Board of Directors or Chief Executive Officer of the Company and (B) the Executive's services shall be performed in the location set forth on Exhibit A hereto.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his attention and time during normal business hours to the business and affairs of the Company and Parent and to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this

Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company and Parent in accordance with this Agreement, and with respect to the activities described in clauses (A) and (C) hereof subject to Parent's policies as in effect from time to time.

(b) Compensation.

(i) Initial Payment. On the Effective Date, the Company shall pay to the Executive a lump sum payment equal to the amount set forth on Exhibit A hereto, which is equal to the cash payment that the Executive would have been entitled to receive pursuant to Section 4.5 (the "Cash Severance") of the Change in Control Severance Agreement between the Company and the Executive dated as of April 1, 2000 (the "Severance Agreement"), had he been terminated by the Company without "cause" (as defined therein) upon the Effective Date. In addition, on the Effective Date, the Company shall pay to the insurance company which has issued the policy which is the subject of the Split-Dollar Agreement between the Executive and the Company, dated as of May 15, 1998 (the "Split-Dollar Agreement"); the amount set forth on Exhibit A hereto (the "Split Dollar Payment"), which is equal to the projected amount of the premium payments that the Company would have been required to make during the three-year period immediately following the Effective Date on the policy underlying the Split-Dollar Agreement, pursuant to Paragraph 5(b) of the Split-Dollar Agreement. The Executive shall also be entitled to an excise tax gross-up payment as set forth in Section 4.7 of the Severance Agreement solely with respect to the payments and benefits that the Executive was entitled to receive under the terms of the Severance Agreement, the Employment Agreement between the Executive and the Company dated as of May 1, 2000 (the "Prior Employment Agreement"), the Supplemental Executive Retirement Agreement between the Company and the Executive, dated as of May 1, 2000 (the "SERA") and the Split-Dollar Agreement (collectively, the "Pre-Effective Date Agreements") or with respect to the vesting of or lapse of restrictions on, as a direct result of the Merger, compensation earned, benefits accrued or equity awards granted prior to the Effective Date (including, without limitation, benefits due and owing under the Pre-Effective Date Agreements and specifically incorporated herein). Except as set forth in the preceding sentence, in no event shall the Executive be entitled to an excise tax gross-up payment with respect to any amounts payable or benefits provided under the terms of this Agreement. The Executive acknowledges and agrees that in no event shall he be entitled to the payments or benefits under the Severance Agreement based upon a termination during a "Period of Anticipated Change in Control" (as defined in the Severance Agreement).

(ii) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary") of no less than the annual base salary in effect with respect to the Executive for calendar year 2001.

(iii) Annual Bonus. For each calendar year ending during the Employment Period, the Executive shall receive (or at his election pursuant to the deferred compensation plan of the Company (if any) defer part or all of) an annual cash bonus at least equal to the amount set forth on Exhibit A hereto (the "Annual Bonus") no later than January 31 of the following year, and the Annual Bonus hereunder shall be in lieu of any bonus amount (or portion

thereof) payable to the Executive under any agreement or bonus plan of the Company, including without limitation, the Company Performance-Based Plan for Executive Officers with respect to the calendar year in which the Effective Date occurs, and the Executive hereby waives all right under any such agreements or plans. For the calendar year within which the Employment Period ends, the Executive shall receive no later than January 31 of the following year (or at his election pursuant to the applicable deferred compensation plan of the Company (if any) defer part or all of) a bonus which shall equal or exceed an amount determined by multiplying the Annual Bonus amount set forth on Exhibit A by a fraction the numerator of which shall be the number of days in such calendar year which were included in the Employment Period and the denominator of which shall be 365.

(iv) Incentive Awards. At the time equity grants are made to other employees of the Company pursuant to the Merger Agreement, the Executive will be granted equity based awards with respect to the common stock of Parent (the "2001 Service Awards"), pursuant to the terms of the applicable Parent plan as in effect from time to time, that is equal in value to the value of all options (valued using a Black-Scholes value of $10.00, after giving effect to the stock split in 2001), restricted shares and Performance Awards contained in a Performance Based Restricted Stock/Restricted Share Unit Award (valued using the fair market value of the Company's common stock on the date of grant) with respect to restricted share units and performance awards that were granted to the Executive by the Company on January 17, 2001, and with the ratio of the options, restricted shares and performance awards being the same as the ratio of the awards granted to the Executive on January 17, 2001. For purposes of the immediately preceding sentence, the value of the options in Parent's common stock shall be determined using the Black-Scholes valuation model, using assumptions established in manner consistent with the assumptions applied by Parent, consistent with past practices, in respect of stock option grants in 2001. Any stock options on Parent common stock granted in connection with the 2001 Service Awards will have an exercise price equal to the fair market value of the Parent common stock subject thereto on the date of grant and, except as otherwise provided herein, shall vest in four equal installments on each of the first, second, third and fourth anniversaries of the date of grant. Any restricted shares and Performance Awards granted in respect of Parent common stock shall have terms and conditions that are substantially comparable to those applied in respect of the 2001 awards made by the Company. In the event that the Executive receives any equity award grants (other than reload options) from the Company after the date hereof, the 2001 Service Awards shall be reduced by the value of any such awards (determined using a Black-Scholes value with respect to options, using assumptions established on a basis consistent with those applied by the Company in determining such Black-Scholes value in respect of the 2001 grants to the Executive, and the fair market value on the date of grant with respect to performance based or restricted stock awards).

(v) Retirement Benefits. On the Effective Date, the Executive shall be paid the benefits payable to the Executive under the SERA, which benefits shall be calculated under the terms and conditions thereof (including without limitation, any enhanced service and age credits provided under Section 2.6 in respect of a termination of the Executive's employment following the occurrence of a Change of Control) as though the Executive's employment terminated on the Effective Date without Cause and the Executive elected to receive a lump sum distribution of such benefits, with any offset against such benefits related to the benefits payable to the Executive under any other retirement plan maintained by the Company based on the benefits

accrued by the Executive thereunder as of the Effective Date. From and after the Effective Date, the Executive shall not be entitled to accrue any additional benefit under the SERA. From and after the Effective Date, the Executive shall participate in the applicable retirement plans of the Company as though no SERA benefit was accrued, provided that the Executive shall not become a participant in the Company's or Parent's Supplemental Executive Retirement Plan and that in no event shall the Executive be entitled to duplicate benefits with respect to the same period of service. To the extent anything contained in this Section 3(b)(v) is inconsistent with the terms and conditions of the SERA, the SERA shall be deemed amended hereby.

(vi) Other Employee Benefit Plans. During the Employment Period, except as otherwise expressly provided herein, the Executive shall be entitled to participate in all employee benefit, welfare and other plans, practices, policies and programs generally applicable to similarly situated executives of the Company, provided that, in no event shall the Executive be entitled to receive duplicate benefits with respect to the same period of service under any plans, practices, policies or programs of the Company and/or Parent. Notwithstanding anything contained herein to the contrary, the Executive expressly understands and agrees that he will not initially be entitled to become a participant in the STARR International Co., Inc. ("SICO") Deferred Compensation Profit Participation Plan ("SICO Plan") or to become a stockholder of C.V. STARR & Co., Inc. ("STARR"), but that following the first anniversary of the Effective Date, Parent will recommend to the Boards of Directors of SICO and of STARR that the Executive be eligible to commence participation in the SICO Plan and to become a stockholder of STARR, consistent with similarly situated executives of subsidiaries of Parent. Any participation in the SICO Plan or STARR will require a mutually agreeable reduction in the other compensation payable or provided to the Executive, including without limitation the Base Salary and the Annual Bonus, and such reduction will be a condition to participation in such plans and will in no event be deemed a breach of this Agreement. Any reduction in the compensation otherwise payable hereunder shall be agreed to, in writing, by the parties in advance of the time such reduction is to be effective, and such writing shall set forth, in reasonable detail sufficient for the Executive to understand, the compensation being provided in lieu thereof and all vesting and forfeiture provisions related thereto (and other restrictions, if any, on the ability of the Executive to access or receive such compensation).

(vii) Indemnification. The Company shall indemnify the Executive during his employment hereunder and following the termination of the Executive's employment hereunder, on the same basis as the Company indemnifies similarly situated executives of the Company.

(viii) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the Company's policies.

(ix) Perquisites. During the Employment Period, the Executive shall be entitled to perquisites in accordance with the plans, practices, policies and programs generally applicable to similarly situated executives of the Company.

(x) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company as in effect with respect to the similarly situated executives of the Company.

(xi) Other Benefits From Prior Employment Agreement. Upon and following any termination of the Executive's employment with the Company following the Effective Date, regardless of the reason, the Company shall provide the Executive with the benefits described in Section 8(c)(iv) of the Prior Employment Agreement for the duration described in the Prior Employment Agreement, based on the comparable benefits provided immediately prior to the Date of Termination.

4. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company or Parent determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 10(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative.

(b) With or Without Cause. The Company or Parent may terminate the Executive's employment during the Employment Period with or without Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by Parent that specifically identifies the manner in which Parent believes that the Executive has not substantially performed the Executive's duties, or

(ii) the engaging by the Executive in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company or one of its affiliates, or

(iii) conviction of a felony or guilty or nolo contendere plea by the Executive with respect thereto.

Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Parent Board or the Board of Directors of the Company or upon the instructions of the Chief Executive Officer of Parent or the Company or based upon the advice of counsel for Parent or the Company shall be conclusively presumed to be done, or omitted to be done, by the

Executive in good faith and in the best interests of the Company. The acts and/or omissions which are alleged to constitute the basis for a Cause termination shall be identified to the Executive in reasonable detail in writing, at the time of any such termination of the Executive's employment for Cause.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean a material breach by the Company or Parent of a material provision of this Agreement. Without limiting the generality of the foregoing, Parent and the Executive agree that any of the following would constitute a material breach of this Agreement by Parent: (i) any reduction in the Executive's base salary or annual bonus (other than a reduction consented to by the Executive in writing, including, without limitation, any reduction contemplated by Section 3(b)(vi)); (ii) any material adverse change (without his prior written consent) in the Executive's duties and responsibilities, or titles, as set forth in Section 3(a)(i) and Exhibit A attached hereto; and (iii) any relocation of his principal place of employment in violation of Section 3(a)(i) and Exhibit A attached hereto.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive, the Company or Parent to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive, the Company or Parent, respectively, hereunder or preclude the Executive, the Company or Parent, respectively, from asserting such fact or circumstance in enforcing the Executive's, the Company's or Parent's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company or Parent for Cause, or by the Executive with or without Good Reason, the date of receipt of the Notice of Termination or any later date specified therein within 30 days of such notice, as the case may be, (ii) if the Executive's employment is terminated by the Company or Parent other than for Cause or Disability, the Date of Termination shall be the date on which the Company or Parent notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

5. Obligations of the Company upon Termination, (a) Good Reason; Other Than for Cause, Death or Disability. If, during the Employment Period, the Company or Parent shall terminate the Executive's employment other than for Cause, death or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid ("Accrued Salary"), (2) the benefits described in Section 3(b)(xi) hereof and (3) any benefits to which the Executive is entitled under the terms and conditions of any applicable employee benefits plan, program or agreement (collectively, subclause (l)-(3) shall be referred to as the "Accrued Obligations"); and

B. a lump sum amount equal to the greater of (x) the severance under the severance policy applicable to similarly situated executives of the Company, as in effect from time to time, and (y) the sum of the Executive's Annual Base Salary and the Annual Bonus amount set forth in Section 3(b)(iii); and

C. a pro-rata portion of the Annual Bonus payable to the Executive under Section 3(b)(iii), which shall be determined by multiplying such bonus by a fraction, the numerator of which is the number of days in the calendar year in which the Executive's date of termination occurs which have elapsed prior to such date of termination and the denominator of which is 365; and

D. outplacement services for the duration and of the nature described in Section 8(c)(v) of the Prior Employment Agreement; and

(ii) to the extent granted prior to the Date of Termination, the 2001 Service Awards shall vest immediately.

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than the Accrued Obligations (to the extent applicable upon the Executive's death). Accrued Salary shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. In addition, (i) to the extent granted prior to the Date of Termination, all of the 2001 Service Awards shall become fully vested and, to the extent applicable, exercisable for the maximum period allowable under the applicable plan for a termination due to death and (ii) the Executive's estate shall be entitled to the death benefits as in effect on the date of the Executive's death with respect to similarly situated executives of the Company (including, without limitation, any rights to accelerated vesting and enhanced exercise periods applicable in respect of any equity awards made to the Executive in connection with his employment after the Effective Date (excluding the 2001 Service Awards, which are addressed in subclause (i)) that are generally available to similarly situated executives of subsidiaries of Parent whose employment has terminated for such reason under the terms of the plan, program or arrangement under which such awards have been made (the "Equity Enhancements")).

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than in respect of the Accrued Obligations. Accrued

Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. In addition, (i) to the extent granted prior to the Date of Termination, all of the 2001 Service Awards shall become fully vested and, to the extent applicable, exercisable for the maximum period allowable under the applicable Parent plan for a termination due to disability and (ii) the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits as in effect at any time thereafter generally with respect to similarly situated executives of the Company and to the Equity Enhancements).

(d) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause or the Executive terminates his employment without Good Reason during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive the Accrued Obligations and the only duties, obligations and liabilities of the Executive to the Company or Parent thereafter shall be the restrictive covenants set forth in Section 7 hereof.

6. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or Parent may have against the Executive or others.

7. Confidential Information; Noncompetition; Nonsolicitation.

(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company and Parent all secret or confidential information, knowledge or data relating to the Company, Parent or any of their affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company, Parent or any of their affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, Parent or any of their affiliated companies, the Executive shall not, without the prior written consent of Parent or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company, Parent or any of their affiliated companies and those designated by them.

(b) The Executive agrees that until the earlier of (i) the fourth anniversary of the Effective Date and (ii) the first anniversary of the Executive's termination of employment for any reason (the "Restricted Period"), the Executive will not, without the written consent of Parent, engage in any business of, or enter the employ of, or have any interest in, directly or indirectly, any other person, firm, corporation or other entity engaged in a business that competes with, or provides services and/or products of a nature substantially similar to those provided by, the Company, Parent or their affiliates, with an office or facility in any geographic area in which the Company, Parent or their affiliates do business. Nothing herein shall restrict the Executive from owning 1% or less of the outstanding securities of any corporation or other entity whose securities are listed on any national securities exchange or traded over-the-counter, if the Executive has no other connection or relationship with the issuer of such securities.

(c) During the Restricted Period, the Executive will not, directly or indirectly, on behalf of the Executive or any other person, solicit for employment or employ by other than the Company or Parent any person who, at any time during the six-month period immediately preceding the date of such solicitation, was an employee of the Company, Parent or any of their affiliates.

(d) The Executive acknowledges and agrees that due to the nature of the business in which the Company, Parent and their affiliates are engaged and because of the nature of the confidential information to which the Executive has access, it would be impractical and excessively difficult to determine the actual damages of the Company or Parent in the event the Executive breached any of the covenants of this Section 7 and that remedies at law (such as monetary damages) for any breach of the Executive's obligations under this Section 7 would be inadequate. The Executive therefore agrees and consents that, if the Executive commits any breach of a covenant under this Section 7 or threatens to commit any such breach, the Company and Parent shall have the right (in addition to, and not in lieu of, any other right or remedy that may be available to each of them) to temporary and permanent injunctive relief from a court of competent jurisdiction. With respect to any provision of this Section 7 finally determined by a court of competent jurisdiction to be unenforceable, the Executive, the Company and Parent hereby agree that such court shall have jurisdiction to reform this Agreement or any provision hereof so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination.

(e) The provisions of this Section 7 shall remain in full force and effect until the expiration of the period specified therein, notwithstanding the earlier termination of the Executive's employment hereunder, the Employment Period or this Agreement, provided that the Effective Date has occurred.

8. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company and Parent shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and Parent and their respective successors and assigns.

(c) The Company and Parent 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 or Parent, as applicable, to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company and/or Parent would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" and "Parent" shall mean the Company and Parent as hereinbefore defined and any successor to their respective businesses and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. As used in this Agreement, the term "affiliated companies" and "affiliates" shall include any company controlled by, controlling or under common control with the Company.

9. Dispute Mechanism.

(a) Pre-Effective Date Agreements. To the extent that there is any dispute between the parties with respect to any benefits payable hereunder which are due and payable under a Pre-Effective Date Agreement (including, without limitation, the amounts payable under Section 3(b)(i), the SERA benefits payable under Section 3(b)(v) and the benefits payable or provided under Section 5(a)(i)(D)), such dispute shall be resolved pursuant to the mechanism set forth in Section 20 of the Prior Employment Agreement, which is incorporated by reference herein and made a part hereof, and Parent shall be obligated to pay (or shall cause the Company to pay) the Executive's legal and arbitration fees and expenses as provided under Section 10 of the Prior Employment Agreement, which is incorporated by reference herein and made a part hereof.

(b) Benefits and Claims Not Related to the Pre-Effective Date Agreements. To the extent that there is any dispute between the parties with respect to any benefits payable hereunder which are not due and payable under a Pre-Effective Date Agreement (and therefore not subject to the dispute mechanism set forth in Section 9(a) above), Parent shall be obligated to pay (or shall cause the Company to pay) the Executive's legal and arbitration fees and expenses related to such dispute in the event that the Executive prevails at arbitration or trial as to any material issue presented in such dispute.

10. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: At the most recent address on file at the Company

If to the Company: American General Corporation
2929 Allen Parkway
Houston, Texas 77019
Attention: General Counsel

Copy to Parent: American International Group, Inc.
70 Pine Street
New York, New York 10270
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company's obligations (i) to indemnify the Executive pursuant to Section 3(vii), (ii) to provide the Executive with benefits and compensation pursuant to Section 5, (iii) to pay any gross-up payment required to be paid under Section 3(b)(i), and (iv) to pay any amount not previously paid (and required to be paid hereunder) in respect of any Pre-Effective Date Agreement, as well as the dispute mechanisms set forth in Section 9, shall survive the termination of the Executive's employment hereunder, the Employment Period or this Agreement, provided that the Effective Date has occurred.

(e) None of the benefits provided to the Executive under any of the Pre-Effective Date Agreements or under Section 5 hereof shall be subject to any mitigation or offset, except as may otherwise be expressly provided hereunder.

(f) The Company or Parent may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(g) The Executive's or the Company's or Parent's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Company or Parent may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(h) From and after the Effective Date, this Agreement shall supersede and terminate the Severance Agreement, the Prior Employment Agreement, and any amendments thereto, except to the extent that any of the benefits made available under the Prior Employment Agreement are expressly intended to continue under the terms of this Agreement. From and after the Effective Date, the SERA and the Split-Dollar Agreement shall be amended in accordance with the terms hereof, and, upon satisfaction of the Company's obligations as set forth herein, the Company and Parent shall have no further obligations under such agreements.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from their respective Boards of Directors, each of the Company and Parent has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ John A. Graf

JOHN A. GRAF

AMERICAN GENERAL CORPORATION

BY /s/ Mark S. Berg

Name: Mark S. Berg
Title: Executive Vice President and General Counsel

AMERICAN INTERNATIONAL GROUP, INC.

BY /s/ Ernest T. Patrikis

Name: Ernest T. Patrikis
Title: Senior Vice President and General Counsel

Exhibit A

Name: John A. Graf

Position: Senior Vice Chairman

Adjustments to Responsibilities: Excluding responsibilities related to investments.

Location: Houston, Texas

Cash Severance Amount: $4,875,000

Split-Dollar Payment: $222,387

Annual Bonus: $1,250,000

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET, NEW YORK, N.Y. 10270
TELEPHONE: (212) 770-7000

July 27, 2001

John A. Graf
6340 Brompton
Houston, Texas 77005

Re: Amendment to Employment Agreement dated as of May 11, 2001

Dear Mr. Graf:

This letter confirms the following understandings reached among you, American International Group, Inc. ("Parent"), SunAmerica Inc., a Delaware corporation and a wholly-owned subsidiary of Parent ("SunAmerica"), and American General Corporation ("Company") with respect to the Employment Agreement dated as of May 11,2001(the "Agreement") and constitutes an amendment to such Agreement:

1. As of the Effective Date (as defined in the Agreement"), (a) the Company's rights and obligations under the Agreement will be assigned to SunAmerica without further action required, (b) SunAmerica will assume all rights and obligations of the Company under the Agreement, and (c) all references in the Agreement to the Company (other than references to specifically identified employee benefits or benefit or other plans of the Company which remain in effect subsequent to the Effective Date (which references will remain references to such continuing plans of the Company so long as such plans remain in effect in accordance with the terms of the Merger Agreement (as defined in the Agreement)) will be deemed to be references to SunAmerica.

2. Exhibit A to the Agreement is amended as follows:

   "Position: Vice Chairman, SunAmerica Inc. You will be elected as a member of the Board of Directors of SunAmerica Inc.

Adjustments to Responsibilities: The Executive acknowledges and agrees that the businesses comprising the Retirement Services Division of American General Corporation are being integrated into SunAmerica Inc. and its subsidiaries (excluding American General Investment Management, which is being integrated into the Fixed Income operations of Parent). The Executive's responsibilities will include the Fixed Annuity business, the non-profit group Retirement Plan business (i.e., Variable Annuity Life Insurance Company) and the Broker-Dealer business (i.e., The SunAmerica Financial Network) (these businesses collectively referred to herein as the "Reference Businesses"). The Executive's responsibilities will exclude responsibilities related to investments, the mutual fund business (acknowledging that the mutual fund business of American General Corporation is being combined with SunAmerica Asset Management Corp.) and Individual Variable Annuities

Location: Houston, Texas, then Los Angeles, California (after an agreed upon transitional period not to exceed 12 months."

3. Section 3(b)(iii) of the Agreement is amended as follows: "Bonus. For each calendar year ending during the Employment Period, (a) the Executive shall receive (or at his election pursuant to the deferred compensation plan of the Company, if any, defer part or all of) an annual cash bonus of not less than $1,250,000 (the "Annual Bonus") no later than January 31 of the following year and (b) the Annual Bonus hereunder shall be in lieu of any bonus amount (or portion thereof) payable to the Executive under any agreement or bonus plan of the Company, Parent or any subsidiary of Parent (other than the Supplementary Bonus as hereinafter described), including without limitation, the Company Performance-Based Plan for Executive Officers with respect to the calendar year in which the Effective Date occurs, and the Executive hereby waives all rights under such agreement or plans. For the calendar year within which the Employment Period ends, the Executive shall receive no later than January 31 of the following year (or at his election pursuant to the applicable deferred compensation plan of the Company, if any, defer part or all of) a bonus which shall

equal or exceed an amount determined by multiplying the Annual Bonus by a fraction the numerator of which shall be the number of days in such calendar year which were included in the Employment Period and the denominator of which shall be 365.

For each calendar year ending during the Employment Period, the Executive will receive a minimum of $90,000 of bonus compensation (the "Supplementary Bonus") payable in equal quarterly amounts with regard to services performed in that year provided the Executive is employed by Parent or a subsidiary of Parent at the time of the respective quarterly payment when such payment becomes due."

4. Section 3(b)(iv) of the Agreement is amended as follows: "Incentive Awards. At the time equity grants are made to executive officers of the Parent in respect of services performed in the calendar year ending December 31, 2001, the Executive will be granted equity-based awards with respect to the common stock of Parent (the "2001 Service Awards"), pursuant to the terms of the applicable Parent plans or the applicable plans of Starr International Company, Inc. ("SICO"), which the parties agree has an aggregate value as of the date of this letter of at least $8,731,163 comprised of the following:

- stock options with an exercise price equal to the fair market value of Parent common stock on the date of grant, vesting (subject to your continued employment with Parent or its subsidiaries on the vesting dates) in four equal installments on each of the first, second, third and fourth anniversaries of the date of grant having an aggregate Black-Scholes valuation of $2,148,023 using a Black-Scholes factor of 0.4059;

- Five year cliff vesting stock options vesting (subject to your continued employment with Parent or its subsidiaries on the vesting date) in full on the fifth anniversary of the date of grant with an exercise price equal to the fair market value of Parent common stock on the date of grant having an aggregate Black Scholes valuation of $2,520,000 using a Black-Scholes factor of 0.40;

- Performance share units having a maximum aggregate value of $3,825,000 based upon the fair market value on the date of grant which shall vest (subject to your continued employment with the Parent or its subsidiaries on the vesting date) from 0 to 100 percent as soon as administratively feasible after December 31, 2004 (provided that, the receipt of shares of Parent common stock pursuant to such units may be deferred, at the election of the Executive, pursuant to an applicable deferral program of the Parent, if any) upon achievement of the following implied growth rates of Cumulative Pre-Tax Operating Earnings of (a) the Reference Businesses (with respect to 50% of the maximum shares earned shown below) and (b) SunAmerica (with respect to the other 50% of the maximum shares earned shown below):

Maximum Implied Growth Rate---------	15.0%	Maximum Shares Earned------	100%
Target Implied Growth Rate----------	12.5%	Maximum Shares Earned------	50%
Threshold Implied Growth Rate---- --	8.5%	Maximum Shares Earned------	25%
Below Implied Growth Rate-------- --	8.50%	Maximum Shares Earned------	0%

Cumulative Pre-Tax Operating Earnings means the consolidated pretax operating earnings of the Reference Businesses or SunAmerica, as applicable, excluding net realized investment gains, non-recurring items, and the cumulative effect of accounting changes under generally accepted accounting principles;

and

- 900 participation units in the then current SICO Deferred Compensation Profit Participation Plan ("SICO Plan") (number of units determined using a valuation model for the shares of Parent common stock expected to be distributable with respect to such units in accordance with the terms of the SICO Plan using assumptions established on a basis consistent with those applied by Parent in valuing participation units for similarly situated executives of Parent.)

In the event that the Executive receives any equity award grants (other than reload options) from the Company after the date hereof prior to the Effective Date, the 2001

Service Awards shall be reduced by the value of any such awards (determined using a Black-Scholes value with respect options, using assumptions established on a basis consistent with those applied by the Company in determining such Black-Scholes value in respect of the 2001 grants to the Executive, and the fair market value on the date of grant with respect to performance based and restricted stock awards.)"

5. Section 3(b)(vi) of the Agreement is amended as follows: "Other Employee Benefit Plans. During the Employment Period, except as otherwise expressly provided herein, the Executive shall be entitled to participate in all employee benefit, welfare and other plans, practices, policies and programs generally applicable to similarly situated executives of the Company, provided that in no event shall the Executive be entitled to receive duplicate benefits with respect to the same period of service under any plans, practices, policies or programs of the Company and/or Parent. Notwithstanding anything contained herein to the contrary, the Executive expressly understands and agrees that he will not initially be entitled to become a stockholder of C.V. Starr & Co., Inc. ("Starr"), but that following the first anniversary of the Effective Time, Parent will recommend to the Board of Directors of Starr that the Executive be eligible to become a stockholder of Starr, consistent with similarly situated executives of subsidiaries of Parent. Any Participation as a stockholder of Starr will require a mutually agreeable reduction in other compensation payable or provided to the Executive, including without limitation the Base Salary, the Annual Bonus and the Supplementary Bonus, and such reduction will be a condition to such participation and will in no way be deemed a breach of this Agreement. Any reduction in the compensation otherwise payable hereunder shall be agreed to, in writing, by the parties in advance of the time such reduction is to be effective, and such writing shall set forth, in reasonable detail sufficient for the Executive to understand, the compensation being provided in lieu thereof and all vesting and forfeiture provisions related thereto (and other restrictions, if any, on the ability of the Executive to access or receive such compensation).

6. The Executive agrees that this letter agreement constitutes his written consent to changes in his compensation arrangements, duties and responsibilities and principal

place of employment and under no circumstances shall such changes constitute "Good Reason" for termination by the Executive as defined in Section 4(c) of the Agreement.

7. From and after the date hereof, the Agreement is hereby amended by this letter agreement, in accordance with Section 10 of the Agreement.

Very truly yours,

American International Group, Inc.

By: /s/ M.R. Greenberg
Name: M.R. Greenberg
Title: Chairman

American General Corporation

By: /s/ Gary D. Reddick
Name: Gary D. Reddick
Title: Executive Vice President

SunAmerica Inc.

By: /s/ Jay S. Wintrob
Name: Jay S. Wintrob
Title: President and CEO

Accepted and Agreed as of August 6, 2001:

/s/ John A. Graf
John A. Graf

March 25, 2003

John A. Graf
6340 Brompton
Houston, Texas 77005

Re: Second Amendment to Employment Agreement dated as of May 11, 2001

Dear Mr. Graf:

This letter confirms the following understandings reached among you, American International Group, Inc. ("Parent"), AIG SunAmerica Inc. (formerly SunAmerica Inc.), a Delaware corporation and a wholly-owned subsidiary of Parent ("AIG SunAmerica"), and American General Corporation ("Company") with respect to the Employment Agreement dated as of May 11, 2001 (the "Original Agreement") and the Amendment to the Original Agreement dated July 27, 2001 (the "First Amendment" and, together with the Original Agreement, the "Agreements") and constitutes an amendment to the Agreements:

1. As of November 6, 2002, (a) AIG SunAmerica's rights and obligations under the Agreements will be assigned to Parent without further action required, (b) Parent will assume all rights and obligations of AIG SunAmerica under the Agreements, and (c) all references in the Agreements to the Company or AIG SunAmerica (other than references to specifically identified employee benefits or benefit or other plans of the Company which remain in effect subsequent to the Effective Date (which references will remain references to such continuing plans of the Company so long as such plans remain in effect)), will be deemed to be references to Parent.

2. Exhibit A to the Original Agreement is amended as follows (superceding Section 2 of the First Amendment):

   "POSITION: Executive Vice President, Retirement Savings, American International Group, Inc. Vice Chairman, AIG SunAmerica Inc. Executive will continue to serve as a member of the Board of Directors of AIG SunAmerica Inc.

   ADJUSTMENTS TO RESPONSIBILITIES: The Executive will head the international retirement savings operations of the AIG companies. The operations include the pension, annuity, and retail asset management businesses of the AIG companies internationally.

   LOCATION: New York, New York."

3. Section 4 of the First Amendment (amending Section 3(b)(iv) of the Original Agreement) is amended to delete the third bullet point contained therein in its entirety and to insert in lieu thereof the following:

   "Performance share units having a maximum aggregate value of $3,825,000 based upon the fair market value on the date of grant which shall vest (subject to your continued employment with the Parent or its subsidiaries on the vesting date) from 25 to 100 percent as soon as administratively feasible after December 31, 2004 (provided that, the receipt of shares of Parent common stock pursuant to such units may be deferred, at the election of the Executive, pursuant to an applicable deferral program of the Parent, if any), such vesting percentage to be at the discretion of the Chief Executive Officer of Parent based upon his assessment of the growth and profitability of (i) the international retirement savings operations and (ii) the domestic fixed annuity and non-profit group retirement plan businesses of AIG SunAmerica, otherwise referred to as AIG Annuity and AIG VALIC."

4. The Executive agrees that this letter agreement constitutes his written consent to changes in his compensation arrangements, duties and responsibilities and principal place of employment and under no circumstances shall change constitute

"Good Reason" for termination by the Executive as defined in Section 4(c) of the Original Agreement.

5. From and after the date hereof, the Agreements are hereby amended by this letter agreement, in accordance with Section 10 of the Original Agreement.

Very truly yours,

American International Group, Inc.

By: /s/ M.R. Greenberg
Name: M.R. Greenberg
Title: Chairman and Chief Executive Officer

American General Corporation

By: /s/ Ernest T. Patrikis
Name: Ernest T. Patrikis
Title: Executive Vice President

AIG SunAmerica Inc.

By: /s/ Jay S. Wintrob
Name: Jay S. Wintrob
Title: President and Chief Executive Officer

Accepted and Agreed as of March 25, 2003:

/s/ John A. Graf
John A. Graf

SPLIT-DOLLAR AGREEMENT

THIS SPLIT-DOLLAR AGREEMENT (this "Agreement") is made and entered into effective as of May 15, 1998 (the "Effective Date"), by and among AMERICAN GENERAL CORPORATION, a Texas corporation, with principal offices and place of business in Houston, Texas (hereinafter referred to as the "Company"), JOHN A. GRAF (hereinafter referred to as the "Executive"), and Susan Marineau, Trustee of the Graf 1998 Family Trust (hereinafter referred to as the "Owner"),(1/)

WITNESSETH THAT:

WHEREAS, the Executive is currently employed by the Company or an affiliate of the Company; and

WHEREAS, in order to retain the benefits of the services of the Executive for the Company and its affiliates, the Company desires to assist the Executive in providing life insurance protection for the Executive's family under a policy of life insurance (hereinafter referred to as the "Policy") insuring the life of the Executive, which Policy is described in Exhibit A attached hereto and by this reference made a part hereof, and which is being issued by American General Life Insurance Company (hereinafter referred to as the "Insurer"); and

WHEREAS, the Company is willing to pay all of the premiums due on the Policy as an additional employment benefit for the Executive, on the terms and conditions hereinafter set forth; and

WHEREAS, the Owner will be the owner of the Policy and, as such, will possess all incidents of ownership in and to the Policy; and

WHEREAS, the Company wishes to have the Policy collaterally assigned to it by the Owner in order to secure the repayment of the amounts which it will pay toward the premiums on the Policy;

NOW, THEREFORE, in consideration of the premises and of the mutual promises contained herein, the parties hereto agree as follows:

- ----------------

(1/) If the Executive will be the owner of the policy (as opposed to an insurance trust or other entity), then the Executive's name should be inserted in each of the blank spaces provided for the name of the Executive and the name of the Owner. If the space provided for the name of the Owner is not completed, then the Executive shall be deemed to be the Owner.

1. DEFINED TERMS. The terms "Agreement," "Company," "Effective Date," "Executive," "Insurer," "Owner," and "Policy" shall have the meanings assigned to such terms in the preceding provisions of this Agreement. Where the following words and terms are used in this Agreement, they shall have the respective meanings set forth below, unless the context clearly indicates to the contrary:

(a) AFFILIATE: The term "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time.

(b) ANNIVERSARY DATE: Each annual anniversary of the Effective Date; provided, however, that for purposes of Paragraph l(d) below, the Effective Date shall also be considered an Anniversary Date.

(c) AVERAGE ANNUAL BONUS: As of any date for which the Benefit Amount must be determined pursuant to the terms of this Agreement that occurs (1) during the period beginning on the Effective Date and ending on the first Anniversary Date, an amount equal to 75% of the Executive's annual base salary from the Company or an Affiliate of the Company at the rate in effect on the Effective Date (the "Deemed Bonus"), (2) during the period beginning on the day immediately following the first Anniversary Date and ending on the second Anniversary Date, an amount equal to the average of the Deemed Bonus and the most recent annual incentive bonus paid in cash by the Company (or an Affiliate of the Company) to the Executive on or before the first Anniversary Date, (3) during the period beginning on the day immediately following the second Anniversary Date and ending on the third Anniversary Date, an amount equal to the average of the Deemed Bonus and the two most recent annual incentive bonuses paid in cash by the Company (or an Affiliate of the Company) to the Executive on or before the second Anniversary Date, and (4) after the third Anniversary Date, an amount equal to the average of the three most recent annual incentive bonuses paid in cash by the Company (or an Affiliate of the Company) to the Executive on or before the Anniversary Date next preceding such date for which the Benefit Amount is determined.

(d) BASE SALARY: As of any date for which the Benefit Amount must be determined pursuant to the terms of this Agreement, the Executive's annual base salary from the Company or an Affiliate of the Company at the rate in effect on the Anniversary Date next preceding such date.

(e) BENEFIT AMOUNT: As of any given date, an amount equal to 200% of the sum of the Executive's Base Salary and Average Annual Bonus as of such date; provided, however, that on the Executive's Normal Retirement Date, the Benefit Amount shall be reduced to 100% of the sum of the Executive's Base Salary and Average Annual Bonus as of the Measurement Date (except that if the Executive continues his or her employment beyond the Executive's Normal Retirement Date, then such reduction shall occur on the date

of the Executive's termination of employment with the Company for a reason other than death). Notwithstanding the foregoing or any provision in this Agreement to the contrary, the Benefit Amount shall not be increased at any time after the Effective Date to the extent such increase is subject to the medical underwriting requirements of the Insurer and the Insurer refuses to increase the face amount of the Policy based upon the health or medical condition of the Executive.

(f) CAUSE: The term "Cause" shall have the meaning assigned to such term in the Change in Control Severance Agreement.

(g) CHANGE IN CONTROL: The term "Change in Control" shall have the meaning assigned to such term in the Change in Control Severance Agreement.

(h) CHANGE IN CONTROL SEVERANCE AGREEMENT: The Change in Control Severance Agreement between the Company and the Executive that is in effect on the Effective Date (or any successor agreement thereto).

(i) CLAIMANT: The term "Claimant" shall have the meaning assigned to such term in Paragraph 10 hereof.

(j) DISABLED: The Executive shall be considered "Disabled" for purposes of this Agreement at such time as the Executive becomes entitled to receive long-term disability benefits under a long-term disability plan maintained by the Company or an Affiliate of the Company.

(k) MEASUREMENT DATE: The earlier of (1) the date upon which the Executive's employment with the Company terminates for any reason whatsoever (including, without limitation, termination of employment by reason of the death or retirement of the Executive), (2) the date upon which the Executive becomes Disabled, or (3) the effective date of the termination of this Agreement pursuant to Paragraph 8 hereof.

(l) NORMAL RETIREMENT DATE: The term "Normal Retirement Date" shall have the meaning assigned to such term in the Company's Supplemental Executive Retirement Plan that is in effect on the Effective Date.

(m) PREMIUM PAYMENT PERIOD: A period of 10 years commencing on the Effective Date; provided, however, that upon written notice to the Owner and the Executive prior to the occurrence of a Change in Control, the Company may from time to time extend the Premium Payment Period for any period determined by the Company that ends on or before the later of (1) the Executive's Normal Retirement Date or (2) the fifteenth Anniversary Date.

(n) RELEVANT ASSUMPTIONS: As of any given date, (1) the Company's assumption as of such date with respect to the rate of increase, if any, in the Benefit Amount from such date to the Executive's Normal Retirement Date (or, if the Executive continues his or her employment with the Company beyond the Executive's Normal Retirement Date, to the Executive's projected date of retirement from the Company) and (2) current mortality rates and charges, crediting rates, expenses, and other relevant matters applicable to the Policy as of such date. Notwithstanding the foregoing, the assumed rate of increase in the Benefit Amount shall be 0% from and after the Measurement Date.

2. ACQUISITION AND OWNERSHIP OF POLICY; LIMITATIONS ON OWNER'S RIGHTS IN POLICY.

(a) The Owner shall contemporaneously purchase the Policy from the Insurer in the initial total face amount specified in Exhibit A attached hereto. The parties hereto agree that they shall take all reasonable action necessary to cause the Insurer to issue the Policy, and shall take any further reasonable action which may be necessary to cause the Policy to conform to the provisions of this Agreement. The parties hereto agree that the Policy shall be subject to the terms and conditions of this Agreement and of the collateral assignment filed with the Insurer relating to the Policy.

(b) The Policy names the Owner, and the Owner shall be, the sole and absolute owner of the Policy. The Owner shall not exercise any of the ownership rights granted to the owner of the Policy by the terms thereof except with the express written consent of the Company. Without limiting the scope of the foregoing, the Owner shall not sell, assign, transfer, borrow against or withdraw from the cash surrender value of the Policy, change the beneficiary designation provision of the Policy, change the elected death benefit option provisions of the Policy, decrease or increase the face amount of insurance, surrender or cancel the Policy, or take any other action with respect to the Policy without, in any such case, the express written consent of the Company.

(c) Notwithstanding the provisions of Paragraph 2(b) above, the Owner shall have the right to take any of the following actions without the express written consent of the Company, provided that the Owner provides the Company with 15 days prior written notice of any such action: (1) designate the beneficiary or beneficiaries to receive the portion of the proceeds payable under the Policy specified in Paragraph 7(b) hereof; (2) elect the settlement option with respect to such proceeds from among the settlement options available under the Policy; and (3) change such beneficiary designation and settlement option from time to time.

3. COLLATERAL ASSIGNMENT: LIMITATION ON COMPANY'S RIGHTS IN POLICY.

(a) To secure the repayment to the Company of the amount of the premiums on the Policy paid by the Company hereunder, the Owner has, contemporaneously herewith, assigned the Policy to the Company as collateral under a separate assignment instrument The collateral assignment of the Policy to the Company shall not be terminated, altered or amended by the Owner, without the express written consent of the Company. The parties hereto agree to take all action

necessary to cause such collateral assignment to conform to the provisions of this Agreement and to be accepted by the Insurer. Without limiting the scope of the preceding provisions of this Paragraph 3, the parties hereto agree that the Company shall have an interest in the cash surrender value and the death benefits under the Policy to secure the amounts due to the Company hereunder, which interest shall in no event be less than the aggregate premium payments made with respect to the Policy by the Company pursuant to Paragraph 5 below.

(b) The Company shall not at any time prior to the termination of this Agreement (1) take any action that would cause the death benefits under the Policy that would be available for distribution to the beneficiary or beneficiaries designated by the Owner as provided herein to be less than the Benefit Amount (determined as of the earlier of the Measurement Date or the date such action was taken by the Company) and (2) from and after the date upon which a Change in Control occurs, borrow against the Policy, pledge the Policy as collateral for a loan, withdraw any amount from the Policy or otherwise access any funds held under the Policy until such time as the beneficiary or beneficiaries designated by the Owner have received all of the Policy death benefits to which they are entitled pursuant to the provisions of this Agreement.

4. ADJUSTMENTS TO POLICY FACE AMOUNT. On each Anniversary Date that occurs prior to the Measurement Date, the parties hereto shall cause the total face amount of the Policy to be adjusted to the extent necessary, if any, so that such face amount is equal to the Benefit Amount (which Benefit Amount shall be determined as of the day immediately following such Anniversary Date); provided, however, that if any such adjustment would require a reduction in the face amount of the Policy, then the Company may, in its sole discretion, determine that no such adjustment to the face amount of the Policy shall be made for such Anniversary Date. Further, on, or as soon as administratively practicable after, the Executive's Normal Retirement Date (or, if later, the date of the termination of the Executive's employment with the Company for a reason other than death), the parties hereto shall cause the total face amount of the Policy to be reduced to the extent necessary, if any, so that such face amount is equal to the Benefit Amount in effect at such time. The parties hereto agree that they shall take all reasonable action necessary to cause the Insurer to adjust the face amount of the Policy as provided in the preceding provisions of this Paragraph 4. Without limiting the scope of the foregoing, (a) the Executive and the Owner shall furnish any and all information requested by the Company or the Insurer to facilitate an adjustment to the face amount of the Policy and (b) the Executive shall take such physical examinations as the Insurer may deem necessary.

5. PAYMENT OF PREMIUMS.

(a) On the Effective Date and on or before each Anniversary Date, the Company shall pay to the Insurer, as premium payments with respect to the Policy, the amount, if any, determined by the Company in its sole discretion; provided, however, that:

(1) on the Effective Date and on each Anniversary Date that occurs during the Premium Payment Period and prior to the termination of this Agreement, the Company shall make substantially level premium payments with respect to the Policy based upon a

premium payment policy established by the Company that is designed to (i) maintain the Policy in a manner sufficient to provide the level of death benefits to the Owner's beneficiary or beneficiaries pursuant to Paragraph 7(b) hereof in the event of the Executive's death prior to the end of the Premium Payment Period and (ii) accumulate sufficient funds under the Policy (based upon the assumption that the Executive will retire as of the Executive's Normal Retirement Date) so that as of the end of the Premium Payment Period the Policy is projected to have sufficient funds to (A) at all times thereafter provide a minimum death benefit in an amount equal to the Benefit Amount without any further premium payments and (B) permit the Owner to terminate this Agreement as of the later of the Executive's Normal Retirement Date or the fifteenth Anniversary Date and use accumulations under the Policy to obtain the release of the collateral assignment of the Policy to the Company; and

(2) on each Anniversary Date that occurs after the end of the Premium Payment Period and prior to the termination of this Agreement, the Company shall make a premium payment with respect to the Policy in at least the amount required so that as of such Anniversary Date the Policy is projected to have sufficient funds to (i) at all times thereafter provide a minimum death benefit in an amount equal to the Benefit Amount without any further premium payments and (ii) permit the Owner to terminate this Agreement as of the later of the Executive's Normal Retirement Date or the fifteenth Anniversary Date and use accumulations under the Policy to obtain the release of the collateral assignment of the Policy to the Company.

The amount of each premium payment required pursuant to clauses (1) and (2) of the preceding sentence shall be determined based upon (i) the Relevant Assumptions in effect as of the date such premium payment is required to be paid by the Company pursuant to this Paragraph 5(a) and (ii) if the Measurement Date has not occurred as of such premium payment date, the Company's estimate of the date upon which the Measurement Date will occur (which date shall be estimated to be no earlier than the Executive's Normal Retirement Date). The Owner and the Executive acknowledge and agree that (A) the Company is agreeing to make premium payments with respect to the Policy as described above based upon the Relevant Assumptions and for the period of time set forth in this Agreement, (B) the actual crediting rates under the Policy and the charges and expenses incurred with respect to the Policy may deviate from the rates, charges and expenses utilized from time to time under the Relevant Assumptions, and (C) accordingly, the Company makes no guarantee that the Policy will, in fact, have sufficient funds to provide a minimum death benefit in an amount equal to the Benefit Amount at all times after the termination of this Agreement without any further premium payments. The Company shall promptly notify the Owner of the date and the amount of each premium payment made by the Company with respect to the Policy and, promptly upon receipt, the Owner shall furnish the Company with a copy of the annual report for the Policy received by the Owner from the Insurer.

(b) If the Executive's employment with the Company is terminated under circumstances pursuant to which the Executive is entitled to a severance benefit under the Change in Control Severance Agreement, then the Company shall promptly pay into a rabbi trust a single

lump sum cash payment in an amount equal to the projected amount of premium payments that the Company would be required to make with respect to the Policy pursuant to Paragraph 5(a) hereof during the 36 month period immediately following such termination of employment. Pursuant to the terms of the rabbi trust, on each of the first three Anniversary Dates that occur after the termination of the Executive's employment with the Company, the trustee of the rabbi trust shall pay to the Insurer as a premium with respect to the Policy one-third of the amount initially deposited in the rabbi trust by the Company. After the trustee has made three such premium payments, the rabbi trust shall terminate and any remaining funds held by the trustee shall be returned to the Company. Notwithstanding the foregoing, the Company shall remain obligated to make all premium payments required pursuant to Paragraph 5(a) hereof; provided, however, that the Company shall be relieved of such obligation to the extent of the amount of each premium payment made by the trustee of the rabbi trust with respect to the Policy. All costs and expenses associated with the establishment and maintenance of the rabbi trust shall be paid by the Company.

(c) Neither the Executive nor the Owner shall have any obligation to pay any premiums with respect to the Policy prior to the termination of this Agreement. The Company shall have no obligation to pay any premiums with respect to the Policy from and after the termination of this Agreement pursuant to Paragraph 8 below.

6. PROVISION OF INFORMATION. On or before January 31 of each calendar year, the Company shall furnish to the Executive a statement of the amount of income, if any, reportable by the Executive for federal and state income tax purposes for the preceding calendar year as a result of the existence and maintenance of the Policy. The Owner and the Executive shall promptly furnish the Company with (a) copies of any information or notices provided by the Insurer from time to time with respect to the Policy and (b) any other material or information relating to the Policy and reasonably requested by the Company from time to time. Upon request, the Company shall promptly furnish to the Owner evidence of timely payment of any amount required to be paid by the Company pursuant to Paragraph 5 hereof.

7. COLLECTION AND DISTRIBUTION OF DEATH PROCEEDS.

(a) Upon the death of the Executive prior to the termination of this Agreement during the Executive's lifetime, the Company and the Owner shall cooperate with the beneficiary or beneficiaries designated by the Owner to take whatever action is necessary to collect the death benefit provided under the Policy. When such benefit has been collected and paid as provided herein, this Agreement shall thereupon terminate.

(b) Upon the death of the Executive prior to the termination of this Agreement during the Executive's lifetime, the beneficiary or beneficiaries designated by the Owner pursuant to Paragraph 2(c) hereof shall be entitled to receive a portion of the death benefits provided under the Policy in an amount equal to the Benefit Amount determined as of the Measurement Date (which amount shall be reduced as provided in Paragraph 1(e) hereof upon the later of the Executive's Normal Retirement Date or the date of the termination of the Executive's employment with the

Company for a reason other than death). This amount shall be paid under the settlement option elected by the Owner.

(c) Upon the death of the Executive prior to the termination of this Agreement during the Executive's lifetime, the Company shall have the unqualified right to receive any and all of the death benefits provided under the Policy in excess of the amount payable pursuant to Paragraph 7(b) above to the beneficiary or beneficiaries designated by the Owner. This amount shall be paid to the Company in a single lump sum cash payment.

(d) The parties hereto agree that, upon the request of the Company, the beneficiary designation provision of the Policy shall conform to the provisions hereof.

8. TERMINATION OF AGREEMENT.

(a) This Agreement may be terminated by the Owner at any time during the Executive's lifetime and after the fifteenth Anniversary Date upon written notice to the Company and payment to the Company by the Owner at the time of such notice of a single lump sum cash payment in an amount equal to the aggregate premium payments made by the Company pursuant to Paragraph 5 hereof on or before the date of such termination, less any withdrawals from the Policy by the Company prior to the date of such termination and any indebtedness secured by the Policy which was incurred by the Company and remains outstanding as of the date of such termination, including any unpaid accrued interest on such indebtedness. Upon receipt of such amount, the Company shall release the collateral assignment of the Policy by the execution and delivery of an appropriate instrument of release.

(b) This Agreement may be terminated by the Company at any time during the Executive's lifetime (including, without limitation, upon the Executive's termination of employment with the Company or at any time before or after such termination); provided, however, that (i) from and after the Executive's Normal Retirement Date, this Agreement may not be terminated by the Company until the later of such Normal Retirement Date, the date upon which the Executive's employment with the Company terminates, the expiration of the Premium Payment Period or the fifteenth Anniversary Date, (ii) from and after the date upon which the Executive becomes Disabled, this Agreement may not be terminated by the Company until the earlier of the Executive's Normal Retirement Date, the expiration of the Premium Payment Period, the fifteenth Anniversary Date, or the third anniversary of the date upon which the Executive becomes Disabled, and (iii) from and after the date upon which a Change in Control occurs, this Agreement may be terminated by the Company only on or after the date upon which the Executive's employment with the Company terminates (except that, if the Executive's employment with the Company terminates under circumstances pursuant to which the Executive is entitled to a severance benefit under the Change in Control Severance Agreement, then this Agreement may not be terminated by the Company until the third anniversary of the date of such termination of employment). The Company shall provide the Owner and the Executive with 30 days' prior written notice of any such termination of this Agreement by the Company. If this Agreement is terminated by the Company as provided in the

preceding provisions of this Paragraph 8(b), then for 60 days after the effective date of the termination of this Agreement, the Owner shall have the option of obtaining the release of the collateral assignment of the Policy to the Company. To obtain such release, the Owner shall repay to the Company the total amount of the premium payments made by the Company hereunder, less any withdrawals from the Policy by the Company prior to the date of such termination and any indebtedness secured by the Policy which was incurred by the Company and remains outstanding as of the date of such termination, including any unpaid accrued interest on such indebtedness. Upon receipt of such amount, the Company shall release the collateral assignment of the Policy by the execution and delivery of an appropriate instrument of release. If the Owner fails to exercise such option within such 60 day period, then the interest of the Owner in the Policy shall automatically be transferred to the Company and the Owner shall execute any document or documents requested by the Company or the Insurer to effect such transfer. Alternatively, the Company may enforce its right to be repaid the amount due it hereunder from the cash surrender value of the Policy under the collateral assignment of the Policy; provided that in the event the cash surrender value of the Policy exceeds the amount due the Company, such excess shall be paid to the Owner. Thereafter, neither the Owner nor any person claiming under the Owner shall have any further interest in and to the Policy, either under the terms thereof or under this Agreement.

(c) Notwithstanding any provision in this Agreement to the contrary, if the Executive's employment with the Company is terminated for Cause at any time (whether before or after the Executive attains his or her Normal Retirement Date), then (i) this Agreement shall automatically terminate upon such termination of employment, (ii) the interest of the Owner in the Policy shall automatically be transferred to the Company and the Owner shall execute any document or documents requested by the Company or the Insurer to effect such transfer, (iii) the Company may exercise all rights of ownership of the Policy, take all proceeds of the Policy, take proceeds designated for the beneficiary or beneficiaries designated by the Owner, assign its ownership interest in the Policy to any other party or take any other action the Company determines in its sole discretion, and (iv) neither the Owner, the Executive nor their respective heirs, assigns, personal representatives, or beneficiaries shall have any further rights, claims, or interests of any nature whatsoever in the Policy or in this Agreement.

(d) It is a condition precedent to the execution of this Agreement that the Owner and the Executive acknowledge and agree that the Company has the right, subject to certain limitations set forth in Paragraph 8(b) hereof, to terminate this Agreement at any time for any reason whatsoever or for no reason at all. Without limiting the scope of the foregoing, the Owner and the Executive specifically acknowledge and agree that the Company shall have the right to terminate this Agreement prior to the occurrence of a Change in Control in the event that the premiums required to be paid under the Policy are increased due to a deterioration in the health or medical condition of the Executive after the Effective Date. In such event, the Owner and the Executive hereby waive, and agree that they shall not assert, any claim or cause of action, in contract, tort or otherwise, against the Company, any Affiliate of the Company or any employee, director, officer or agent of the Company or any such Affiliate with respect to the termination of this Agreement, including, without limitation, any claim or cause of action based on any alleged discriminatory practice. By

entering into this Agreement, the parties hereto agree that the conditions and provisions set forth in this Paragraph 8(d) are an essential component of this Agreement, and it is their intent that such conditions and provisions not be severed from the other terms and provisions of this Agreement.

9. INSURER NOT A PARTY. Subject to the terms and conditions of the Policy, the Insurer shall be fully discharged from its obligations under the Policy by payment of the Policy death benefit to the beneficiary or beneficiaries named in the Policy and upon the performance of its other obligations in accordance with the terms of the Policy. In no event shall the Insurer be considered a party to this Agreement, or any modification or amendment hereof. No provision of this Agreement, nor of any modification or amendment hereof, shall in any way be construed as enlarging, changing, varying, or in any other way affecting the obligations of the Insurer as expressly provided in the Policy.

10. NAMED FIDUCIARY, DETERMINATION OF BENEFITS, CLAIMS PROCEDURE AND ADMINISTRATION.

(a) NAMED FIDUCIARY. The Company is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of this Agreement, and it shall be responsible for establishing and carrying out a premium payment policy and method consistent with the objectives of this Agreement.

(b) (1) CLAIM. A person who believes that he or she is being denied a benefit to which he or she is entitled under this Agreement (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Company, setting forth his or her claim. The request must be addressed to the Company at its then principal place of business.

(2) CLAIM DECISION. Upon receipt of a claim, the Company shall advise the Claimant that a reply will be forthcoming within 90 days and shall, in fact, deliver such reply within such period. The Company may, however, extend the reply period for an additional 90 days for reasonable cause.

If the claim is denied in whole or in part, the Company shall adopt a written opinion, using language calculated to be understood by the Claimant, setting forth: (i) the specific reason or reasons for such denial; (ii) the specific reference to pertinent provisions of this Agreement on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (iv) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (v) the time limits for requesting a review under subsection (3) and for review under subsection (4) hereof.

(3) REQUEST FOR REVIEW. Within 60 days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Company review its determination. Such request must be addressed to the Company, at its then principal place of business. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Company. If the Claimant does not request a review of the Company's determination within such 60 day period, he or she shall be barred and estopped from challenging the Company's determination.

(4) REVIEW OF DECISION. Within 60 days after the Company's receipt of a request for review, it will review the determination. After considering all materials presented by the Claimant, the Company will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Agreement on which the decision is based. If special circumstances require that the 60 day time period be extended, the Company will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.

11. ARBITRATION.

(a) Upon completion of the claims procedure described in Paragraph 10(b) hereof (if applicable), all claims, demands, causes of action, disputes, controversies, and other matters in questions arising out of or relating to this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement involving the parties hereto and/or their respective representatives, even though some or all of such claims allegedly are extra-contractual in nature, whether such claims sound in contract, tort, or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, shall be resolved by binding arbitration pursuant to the Federal Arbitration Act in accordance with the Employment Dispute Resolution Rules then in effect with the American Arbitration Association. The arbitration proceeding shall be conducted in Houston, Texas. This agreement to arbitrate shall be enforceable in either federal or state court.

(b) The enforcement of this agreement to arbitrate and all procedural aspects of this agreement to arbitrate, including but not limited to, the construction and interpretation of this agreement to arbitrate, the issues subject to arbitration (i.e., arbitrability), the scope of the arbitrable issues, allegations of waiver, delay or defenses to arbitrability, and the rules governing the conduct of the arbitration, shall be governed by and construed pursuant to the Federal Arbitration Act and shall be decided by the arbitrators. In deciding the substance of any such claims, the arbitrators shall apply the substantive laws of the State of Texas (excluding Texas choice-of-law principles that might call for the application of some other state's law); provided, however, it is expressly agreed that the arbitrators shall have no authority to award treble, exemplary, or punitive damages under any circumstances regardless of whether such damages may be available under Texas law, the parties hereby waiving their right, if any, to recover treble, exemplary, or punitive damages in connection

with any such claims. If any party to this Agreement institutes arbitration to enforce the terms of this Agreement, the party who prevails in such arbitration, whether plaintiff or defendant, in addition to the remedy or relief obtained in such arbitration proceeding shall be entitled to recover its or his expenses incurred in connection with such arbitration proceeding, including, without limitation, arbitrators and attorneys fees, and the arbitrators are authorized to so award such costs and fees.

(c) The arbitration may be initiated by any party by providing to the other parties a written notice of arbitration specifying the claims. Within 30 days of the notice of initiation of the arbitration procedure, (1) the Owner and the Executive, acting together, shall denominate one arbitrator and (2) the Company shall denominate one arbitrator. The two arbitrators shall select a third arbitrator failing agreement on which within 60 days of the original notice, either the Owner, the Executive or the Company shall apply to the Senior Active United States District Judge for the Southern District of Texas, who shall appoint a third arbitrator. While the third arbitrator shall be neutral, the two party-appointed arbitrators are not required to be neutral and it shall not be grounds for removal of either of the two party-appointed arbitrators or for vacating the arbitrators' award that either of such arbitrators has past or present minimal relationships with the party that appointed such arbitrator. Evident partiality on the part of an arbitrator exists only where the circumstances are such that a reasonable person would have to conclude there in fact existed actual bias. A mere appearance or impression of bias will not constitute evident partiality or otherwise disqualify an arbitrator.

(d) The three arbitrators shall by majority vote resolve all disputes between the parties. There shall be no transcript of the hearing before the arbitrators. The arbitrators' decision shall be in writing, but shall be as brief as possible. The arbitrators shall not assign the reasons for their decision. The arbitrators shall certify in their award that they have faithfully applied the terms and conditions of this Agreement and that no part of their award includes any amount for exemplary or punitive damages. All proceedings conducted hereunder and the decision of the arbitrators shall be kept confidential by the parties, e.g., the arbitrators' award shall not be released to the press or published in any of the various arbitration reporters. Judgment upon any award rendered in any such arbitration proceeding may be entered by any federal or state court having jurisdiction.

12. AMENDMENT. This Agreement may not be amended, altered, or modified, except by a written instrument signed by the parties hereto, or their respective successors or assigns. Notwithstanding the foregoing or any other provision herein to the contrary, the Premium Payment Period, the face amount of the Policy, the amount of premiums to be paid by the Company, and/or the references in this Agreement to the fifteenth Anniversary Date may be changed by the Company without the consent of the Owner or the Executive to the extent necessary to (a) maintain the Policy as a "life insurance contract" (within the meaning of Section 7702 of the Internal Revenue Code of 1986, as amended (the "Code"), and the interpretative authority promulgated thereunder) and (b) prevent the Policy from constituting a "modified endowment contract" (within the meaning of Section 7702A of the Code and the interpretative authority promulgated thereunder). The Company shall provide the Owner and the Executive with prompt written notice of any such change.

13. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns, and the Owner, the Executive and their respective successors, assigns, heirs, executors, administrators, and beneficiaries; provided, however, that the rights and obligations of the Owner and the Executive hereunder are personal and neither this Agreement, nor any right, benefit, or obligation of the Owner or the Executive hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the Company.

14. NOTICE. Any notice, consent or demand required or permitted to be given under the provisions of this Agreement shall be in writing, and shall be signed by the party giving or making the same. If such notice, consent or demand is mailed to a party hereto, it shall be sent by United States registered or certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Company. The date of such mailing shall be deemed the date of notice, consent or demand.

15. EMPLOYMENT RELATIONSHIP. For all purposes of this Agreement, the Executive shall be considered to be in the employment of the Company as long as the Executive remains an employee of the Company or any Affiliate of the Company. However, this Agreement is not an employment agreement This Agreement shall not be construed as creating an express or implied contact of employment and does not modify the nature of the Executive's employment relationship with the Company or its Affiliates, as the case may be. Except as otherwise agreed in writing between the Executive and the Company or an Affiliate of the Company, the employment relationship between the Executive and the Company or its Affiliates is at-will, i.e., the employment relationship may be terminated at any time at the will of either the Company or the Executive for any reason or no reason at all.

16. TAXES AND POLICY ILLUSTRATIONS. The Company makes no guarantees and assumes no obligations or responsibilities with respect to the Owner's or the Executive's federal, state, or local income, estate, inheritance, and gift tax obligations, if any, under this Agreement, the Policy or the collateral assignment of the Policy to the Company. The Executive and the Owner agree and acknowledge that the Policy illustrations provided prior to the Effective Date and any Policy illustrations that may be provided from time to time thereafter by the Company, the Insurer or their respective agents and representatives are not guaranteed and are not a part of the Policy or this Agreement. Such Policy illustrations shall not create any additional obligations or responsibilities to the Executive or the Owner by the Company, the Insurer, or their respective agents and representatives.

17. GOVERNING LAW. This Agreement, and the rights of the parties hereunder, shall be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this the 15th day of May, 1998, effective as of the Effective Date.

AMERICAN GENERAL CORPORATION

By: /s/ Beth Dobbs

Name: Beth Dobbs
Title: Vice President - Benefits/Payroll

"COMPANY"

JOHN A. GRAF

/s/ John A. Graf

"EXECUTIVE"

/s/ Susan G. Marineau

SUSAN G. MARINEAU

"OWNER"

Notarized for Susan G. Marineau

[NOTARY PUBLIC STAMP]

State of New York SS
County of New York
Subscribed and sworn (affirmed)
before me this 23 day of Dec. 1998

L.S. /s/ Alex Karpinski

EXHIBIT A

The following life insurance policy is subject to the attached Split-Dollar Agreement:

Insurer:	American General Life Insurance Company
Insured:	John A. Graf
Policy Number:	CM0002178L
Face Amount on the Effective Date:	$ 1,266,824.00
Effective Date of Policy:	May 15, 1998

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned (hereinafter the "Owner") hereby assigns, transfers and sets over to American General Corporation, with principal offices and place of business in Houston, Texas, its successors and assigns (hereinafter the "Assignee"), Policy No. CM0002178L issued by American General Life Insurance Company (hereinafter the "Insurer"), and any supplementary contracts issued in connection therewith (said policy and contracts hereinafter the "Policy"), insuring the life of JOHN A. GRAF (the "Executive"), and all claims, options, privileges, rights, title and interest therein and thereunder (except as otherwise provided herein), subject to all the terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the assignment of the Policy to it hereunder, agree to the terms and conditions contained herein.

B. This Assignment is made and the Policy is to be held as collateral security for any and all liabilities and obligations of the Owner to the Assignee, either now existing or that may hereafter arise, under and pursuant to that certain Split-Dollar Agreement by and among the Owner, the Assignee, and the Executive, dated effective as of May 15, 1998 (hereinafter the "Split-Dollar Agreement"). The liabilities and obligations described in the preceding sentence are hereinafter referred to as the "Liabilities."

C. It is expressly agreed that, without detracting from the generality of the foregoing, the following specific rights are included in this Assignment and pass to the Assignee by virtue hereof:

1. The sole right to collect from the Insurer the net proceeds of the Policy when it becomes a claim by death or maturity;

2. The sole right to surrender the Policy and receive the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; and

3. The sole right to obtain one or more withdrawals, loans or advances on the Policy, either from the Insurer or, at any time, from other persons, and to pledge or assign the Policy as security for such loans or advances.

D. It is expressly agreed that the following specific rights, so long as the Policy has not been surrendered and to the extent permitted under the Split-Dollar Agreement, are reserved by the Owner and excluded from this Assignment and do not pass by virtue hereof:

1. The right to designate and change the beneficiary to receive the portion of the proceeds under the Policy specified in Paragraph 7(b) of the Split-Dollar Agreement; and

2. The right to elect any optional mode of settlement permitted by the Policy or allowed by the Insurer with respect to such proceeds.

However, the reservation of these rights by the Owner shall in no way impair the right of the Assignee to surrender the Policy nor impair any other right of the Assignee hereunder. Further, any exercise of these rights shall be made subject to this Assignment and to the rights of the Assignee hereunder.

E. Notwithstanding the foregoing, the Assignee covenants and agrees with the Owner as follows:

1. Any balance of sums received hereunder from the Insurer remaining after payment of the then existing Liabilities shall be paid by the Assignee to the persons entitled thereto under the terms of the Policy, had this Assignment not been executed;

2. The Assignee will not exercise the right to surrender the Policy, nor the right to make withdrawals from the Policy or obtain policy loans from the Insurer, unless and until there has been default in any of the Liabilities or the Split-Dollar Agreement has been terminated, pursuant to its terms; in any event, the Assignee will not exercise any such right until 15 days after the Assignee shall have mailed notice of intention to exercise such right, by first class mail, to the Owner at the address last supplied in writing to the Assignee specifically referring to this Assignment; and

3. The Assignee will, upon request, forward the Policy to the Insurer without unreasonable delay, for endorsement of any designation or change of beneficiary or any election of an optional mode of settlement that has been elected by the Owner.

F. The Insurer is hereby authorized to recognize the Assignee's claims to rights hereunder without investigating the reason for any action taken by the Assignee, the validity or the amount of the Liabilities, the existence of any default therein, termination of the Split-Dollar Agreement, the giving of any notice hereunder, or the application to be made by the Assignee of any amounts to be paid to the Assignee. The sole signature of the Assignee shall be sufficient for the exercise of any rights under the Policy assigned hereby and the sole receipt of the Assignee for any sums received shall be a full discharge and release therefor to the Insurer. Payment for all or any part of the sums due under the policy and assigned herein shall be drawn to the exclusive order of or as directed by the Assignee if, when, and in such amounts as may be requested by the Assignee.

G. The Assignee shall be under no obligation to pay any premium on the Policy nor the principal of or interest on any loans or advances on the Policy, whether or not obtained by the Assignee, or any other charges on the Policy.

H. The exercise of any right, option, privilege or power given herein to the Assignee shall be at the option of the Assignee, and (except as provided herein) the Assignee may exercise any

such right, option, privilege or power without notice to, or assent by, or affecting the liability of, or releasing any interest hereby assigned by the Owner.

I. If applicable, the Assignee may take or release other security, may release any party primarily or secondarily liable for any of the Liabilities, may grant extensions, renewals or indulgences with respect to the Liabilities, or may apply the proceeds of the Policy hereby assigned or any amount received on account of the Policy by the exercise of any right permitted under this Assignment to the Liabilities in such order as the Assignee shall determine, without resorting to or regard to other security.

J. As applied to the duties and responsibilities of the Insurer, in the event of any conflict between the provisions of this Assignment and the provisions of the Split-Dollar Agreement with respect to the Policy or the Assignee's rights of collateral security therein, the provisions of this Assignment shall prevail. As applied between the Owner and the Assignee, in the event of any such conflict, the provisions of the Split-Dollar Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

SIGNED this 15th day of May, 1998, effective as of May 15, 1998.

/s/ Susan G. Marineau

____

____

"OWNER"

This Assignment is hereby accepted and agreed to by the Assignee.

AMERICAN GENERAL CORPORATION

By: /s/ Beth Dobbs

Name: Beth Dobbs

Title: Vice President- Benefits/Payroll

"ASSIGNEE"

STATE OF N.Y.   Section)
                 Section)
N.Y. COUNTY   Section)

On the 23 day of Dec., 1998, before me personally came, SUSAN G. MARINEAU, to me known to be the individual who executed the Assignment on the preceding pages hereof and acknowledged to me that he or she executed the same.

/s/ Alex Karpinski

Notary Public in and for
THE STATE OF___________________

My Commission Expires:

[NOTARY PUBLIC STAMP]

FIRST AMENDMENT TO
SPLIT-DOLLAR AGREEMENT

WHEREAS, the Personnel Committee of the Board of Directors of the Company initially authorized the Company to establish and pay premiums under a split-dollar life insurance arrangement relating to a life insurance policy insuring the life of the Executive and providing the Executive's family with a death benefit equal to 200% of the sum of the Executive's base salary and average annual incentive bonus (the death benefit) being reduced to 100% of the sum of the Executive's base salary and average annual incentive bonus upon Executive's Normal Retirement Date; and

WHEREAS, the Personnel Committee has subsequently authorized the Company, to amend Executive's Split Dollar Agreement so that Executive's death benefit upon his Normal Retirement Date shall not be reduced to 100% of the sum of the Executive's base salary and average annual incentive bonus, but remain at 200% of the sum of the Executive's base salary and average annual incentive bonus; and

WHEREAS, the Personnel Committee has subsequently authorized the Company to enter into an employment agreement with the Executive which was not in effect at the time of Executive's Split Dollar Agreement and which contains certain provisions with respect to split-dollar insurance following termination of Executive's employment.

Now, THEREFORE, this First Amendment to the Split-Dollar Agreement made as of May 15,1998 (the "Agreement"), by and among American General Corporation, a Texas corporation (the "Company"), JOHN A. GRAF (the "Executive") and Susan Marineau as Trustee of the Graf 1998 Family Trust (the "Owner") is made as of May 15,2000 by amending the Agreement as follows:

1. Paragraph 1(e) is hereby amended to read, in its entirety, as follows:

   Benefit Amount: As of any given date, an amount equal to 200% of the sum of the Executive's Base Salary and Average Annual Bonus as of such date. Notwithstanding the foregoing or any provision in this Agreement to the contrary, the Benefit Amount shall not be increased at any time after the Effective Date to the extent such increase is subject to the medical underwriting requirements of the Insurer and the Insurer refuses to increase the face amount of the Policy based upon the health or medical condition of the Executive.

2. Paragraph 1(l) is hereby amended to read, in its entirety, as follows:

Normal Retirement Date: The term "Normal Retirement Date" shall have the meaning assigned to such term in the Supplemental Executive Retirement Agreement between the Company and the Executive that is in effect on the date of the execution of the First Amendment to this Agreement.

3. Paragraph 4 is hereby amended to read, in its entirety, as follows:

Adjustments to Policy Face Amount. On each Anniversary Date that occurs prior to the Measurement Date, the parties hereto shall cause the total face amount of the Policy to be adjusted to the extent necessary, if any, so that such face amount is equal to the Benefit Amount (which Benefit Amount shall be determined as of the day immediately following such Anniversary Date); provided, however, that if any such adjustment would require a reduction in the face amount of the Policy, then the Company may, in its sole discretion, determine that no such adjustment to the face amount of the Policy shall be made for such Anniversary Date. The parties hereto agree that they shall take all reasonable action necessary to cause the Insurer to adjust the face amount of the Policy as provided in the preceding provisions of this Paragraph 4. Without limiting the scope of the foregoing, (a) the Executive and the Owner shall furnish any and all information requested by the Company or the Insurer to facilitate an adjustment to the face amount of the Policy and (b) the Executive shall take such physical examinations as the Insurer may deem necessary.

4. Paragraph 8(e) is added to read as follows:

Should Executive and Company enter into an Employment Agreement which is in effect on the date of the termination of Executive's employment, and which contains specific terms with respect to the treatment of Executive's split-dollar insurance following termination of employment, such terms of the Employment Agreement shall control notwithstanding any provisions to the contrary set forth in Paragraph 8 herein.

5. As amended by this First Amendment, the Agreement is hereby specifically ratified and reaffirmed.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment on October 12, 2000.

AMERICAN GENERAL CORPORATION

By:/s/ Gary D. Reddick

Gary D. Reddick
Executive Vice President and
Chief Administrative Officer - Corporate Operations

/s/ John A. Graf

John A. Graf

Executive

THE GRAF 1998 FAMILY TRUST

By:/s/ Susan Marineau

Susan Marineau, Trustee

Owner

EXHIBIT 10(xx)

EMPLOYMENT AGREEMENT

AGREEMENT by and among American International Group, Inc., a Delaware corporation (the "Parent"), American General Corporation, a Texas corporation (the "Company"), and Rodney O. Martin (the "Executive") dated as of the 11th day of May, 2001.

Parent has determined that it is in the best interests of Parent and the Company and their respective shareholders to assure that the Company will have the continued services of the Executive following the merger (the "Merger") of the Company and Washington Acquisition Corporation, a Texas corporation and a wholly owned subsidiary of Parent ("Merger Sub"), pursuant to the Agreement and Plan of Merger dated as of May 11th, 2001 (the "Merger Agreement"), to provide the surviving corporation after the Merger with continuity of management. Pursuant to the terms of the Prior Agreement (as defined below), Executive would have had the right to terminate his employment upon consummation of the Merger. However, Parent desires to retain the Executive's continued services pursuant to the terms of this Agreement. Therefore, in order to accomplish these objectives, Parent, the Company and the Executive agree as follows:

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Effective Date. The "Effective Date" shall mean the "Effective Date" (as defined in the Merger Agreement) of the Merger. This Agreement shall be and become effective on the Effective Date. If the Effective Date does not occur on or before February 28, 2002 or if the Merger Agreement is earlier terminated in accordance with its terms, then this Agreement shall terminate automatically on February 28, 2002 or on such earlier Merger Agreement termination date and none of Parent, the Company or the Executive shall have any obligation to the other hereunder.

2. Employment Period. The Company hereby agrees to employ the Executive, and the Executive hereby agrees to continue to serve the Company, subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary thereof (the "Employment Period").

3. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive shall serve in the position set forth on Exhibit A attached hereto, with the duties and responsibilities associated with such position on the Effective Date (except to the extent expressly provided in Exhibit A) as shall be assigned to him by the Board of Directors or Chief Executive Officer of the Company and (B) the Executive's services shall be performed in the location set forth on Exhibit A hereto.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote substantially all of his attention and time during normal business hours to the business and affairs of the Company and Parent and to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this

Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not interfere with the performance of the Executive's responsibilities as an employee of the Company and Parent in accordance with this Agreement, and with respect to the activities described in clauses (A) and (C) hereof subject to Parent's policies as in effect from time to time.

(b) Compensation.

(i) Initial Payment. On the Effective Date, the Company shall pay to the Executive a lump sum payment equal to the amount set forth on Exhibit A hereto, which is equal to the cash payment that the Executive would have been entitled to receive pursuant to Section 4.5 (the "Cash Severance") of the Change in Control Severance Agreement between the Company and the Executive dated as of April 1, 2000 (the "Severance Agreement"), had he been terminated by the Company without "cause" (as defined therein) upon the Effective Date. In addition, on the Effective Date, the Company shall pay to the insurance company which has issued the policy which is the subject of the Split-Dollar Agreement between the Executive and the Company, dated as of May 15, 1998 (the "Split-Dollar Agreement"), the amount set forth on Exhibit A hereto (the "Split Dollar Payment"), which is equal to the projected amount of the premium payments that the Company would have been required to make during the three-year period immediately following the Effective Date on the policy underlying the Split-Dollar Agreement, pursuant to Paragraph 5(b) of the Split-Dollar Agreement. The Executive shall also be entitled to an excise tax gross-up payment as set forth in Section 4.7 of the Severance Agreement solely with respect to the payments and benefits that the Executive was entitled to receive under the terms of the Severance Agreement, the Employment Agreement between the Executive and the Company dated as of May 1, 2000 (the "Prior Employment Agreement"), the Supplemental Executive Retirement Agreement between the Company and the Executive, dated as of May 1, 2000, as amended (the "SERA") and the Split-Dollar Agreement (collectively, the "Pre-Effective Date Agreements") or with respect to the vesting of or lapse of restrictions on, as a direct result of the Merger, compensation earned, benefits accrued or equity awards granted prior to the Effective Date (including, without limitation, benefits due and owing under the Pre-Effective Date Agreements and specifically incorporated herein). Except as set forth in the preceding sentence, in no event shall the Executive be entitled to an excise tax gross-up payment with respect to any amounts payable or benefits provided under the terms of this Agreement. The Executive acknowledges and agrees that in no event shall he be entitled to the payments or benefits under the Severance Agreement based upon a termination during a "Period of Anticipated Change in Control" (as defined in the Severance Agreement).

(ii) Base Salary. During the Employment Period; the Executive shall receive an annual base salary ("Annual Base Salary") of no less than the annual base salary in effect with respect to the Executive for calendar year 2001.

(iii) Annual Bonus. For each calendar year ending during the Employment Period, the Executive shall receive (or at his election pursuant to the deferred compensation plan of the Company (if any) defer part or all of) an annual cash bonus at least equal to the amount set forth on Exhibit A hereto (the "Annual Bonus") no later than January 31 of the following year, and the Annual Bonus hereunder shall be in lieu of any bonus amount (or portion

thereof) payable to the Executive under any agreement or bonus plan of the Company, including without limitation, the Company Performance-Based Plan for Executive Officers with respect to the calendar year in which the Effective Date occurs, and the Executive hereby waives all right under any such agreements or plans. For the calendar year within which the Employment Period ends, the Executive shall receive no later than January 31 of the following year (or at his election pursuant to the applicable deferred compensation plan of the Company (if any) defer part or all of) a bonus which shall equal or exceed an amount determined by multiplying the Annual Bonus amount set forth on Exhibit A by a fraction the numerator of which shall be the number of days in such calendar year which were included in the Employment Period and the denominator of which shall be 365.

(iv) Incentive Awards. At the time equity grants are made to other employees of the Company pursuant to the Merger Agreement, the Executive will be granted equity based awards with respect to the common stock of Parent (the "2001 Service Awards"), pursuant to the terms of the applicable Parent plan as in effect from time to time, that is equal in value to the value of all options (valued using a Black-Scholes value of $10.00, after giving effect to the stock split in 2001), restricted shares and Performance Awards contained in a Performance Based Restricted Stock/Restricted Share Unit Award (valued using the fair market value of the Company's common stock on the date of grant) with respect to restricted share units and performance awards that were granted to the Executive by the Company on January 17, 2001, and with the ratio of the options, restricted shares and performance awards being the same as the ratio of the awards granted to the Executive on January 17, 2001. For purposes of the immediately preceding sentence, the value of the options in Parent's common stock shall be determined using the Black-Scholes valuation model, using assumptions established in manner consistent with the assumptions applied by Parent, consistent with past practices, in respect of stock option grants in 2001. Any stock options on Parent common stock granted in connection with the 2001 Service Awards will have an exercise price equal to the fair market value of the Parent common stock subject thereto on the date of grant and, except as otherwise provided herein, shall vest in four equal installments on each of the first, second, third and fourth anniversaries of the date of grant. Any restricted shares and Performance Awards granted in respect of Parent common stock shall have terms and conditions that are substantially comparable to those applied in respect of the 2001 awards made by the Company. In the event that the Executive receives any equity award grants (other than reload options) from the Company after the date hereof, the 2001 Service Awards shall be reduced by the value of any such awards (determined using a Black-Scholes value with respect to options, using assumptions established on a basis consistent with those applied by the Company in determining such Black-Scholes value in respect of the 2001 grants to the Executive, and the fair market value on the date of grant with respect to performance based or restricted stock awards).

(v) Retirement Benefits. On the Effective Date, the Executive shall be paid the benefits payable to the Executive under the SERA, which benefits shall be calculated under the terms and conditions thereof (including without limitation, any enhanced service and age credits provided under Section 2.6 in respect of a termination of the Executive's employment following the occurrence of a Change of Control) as though the Executive's employment terminated on the Effective Date without Cause and the Executive elected to receive a lump sum distribution of such benefits, with any offset against such benefits related to the benefits payable to the Executive under any other retirement plan maintained by the Company based on the benefits

accrued by the Executive thereunder as of the Effective Date. From and after the Effective Date, the Executive shall not be entitled to accrue any additional benefit under the SERA. From and after the Effective Date, the Executive shall participate in the applicable retirement plans of the Company as though no SERA benefit was accrued, provided that the Executive shall not become a participant in the Company's or Parent's Supplemental Executive Retirement Plan and that in no event shall the Executive be entitled to duplicate benefits with respect to the same period of service. To the extent anything contained in this Section 3(b)(v) is inconsistent with the terms and conditions of the SERA, the SERA shall be deemed amended hereby.

(vi) Other Employee Benefit Plans. During the Employment Period, except as otherwise expressly provided herein, the Executive shall be entitled to participate in all employee benefit, welfare and other plans, practices, policies and programs generally applicable to similarly situated executives of the Company, provided that, in no event shall the Executive be entitled to receive duplicate benefits with respect to the same period of service under any plans, practices, policies or programs of the Company and/or Parent. Notwithstanding anything contained herein to the contrary, the Executive expressly understands and agrees that he will not initially be entitled to become a participant in the STARR International Co., Inc. ("SICO") Deferred Compensation Profit Participation Plan ("SICO Plan") or to become a stockholder of C.V. STARR & Co., Inc. ("STARR"), but that following the first anniversary of the Effective Date, Parent will recommend to the Boards of Directors of SICO and of STARR that the Executive be eligible to commence participation in the SICO Plan and to become a stockholder of STARR, consistent with similarly situated executives of subsidiaries of Parent. Any participation in the SICO Plan or STARR will require a mutually agreeable reduction in the other compensation payable or provided to the Executive, including without limitation the Base Salary and the Annual Bonus, and such reduction will be a condition to participation in such plans and will in no event be deemed a breach of this Agreement. Any reduction in the compensation otherwise payable hereunder shall be agreed to, in writing, by the parties in advance of the time such reduction is to be effective, and such writing shall set forth, in reasonable detail sufficient for the Executive to understand, the compensation being provided in lieu thereof and all vesting and forfeiture provisions related thereto (and other restrictions, if any, on the ability of the Executive to access or receive such compensation).

(vii) Indemnification. The Company shall indemnify the Executive during his employment hereunder and following the termination of the Executive's employment hereunder, on the same basis as the Company indemnifies similarly situated executives of the Company.

(viii) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the Company's policies.

(ix) Perquisites. During the Employment Period, the Executive shall be entitled to perquisites in accordance with the plans, practices, policies and programs generally applicable to similarly situated executives of the Company.

(x) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the plans, policies, programs and practices of the Company as in effect with respect to the similarly situated executives of the Company.

(xi) Other Benefits From Prior Employment Agreement. Upon and following any termination of the Executive's employment with the Company following the Effective Date, regardless of the reason, the Company shall provide the Executive with the benefits described in Section 8(c)(iv) of the Prior Employment Agreement for the duration described in the Prior Employment Agreement, based on the comparable benefits provided immediately prior to the Date of Termination.

4. Termination of Employment.

(a) Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. If the Company or Parent determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 10(b) of this Agreement of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and reasonably acceptable to the Executive or the Executive's legal representative.

(b) With or Without Cause. The Company or Parent may terminate the Executive's employment during the Employment Period with or without Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the continued failure of the Executive to perform substantially the Executive's duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by Parent that specifically identifies the manner in which Parent believes that the Executive has not substantially performed the Executive's duties, or

(ii) the engaging by the Executive in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Company or one of its affiliates, or

(iii) conviction of a felony or guilty or nolo contendere plea by the Executive with respect thereto.

Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Parent Board or the Board of Directors of the Company or upon the instructions of the Chief Executive Officer of Parent or the Company or based upon the advice of counsel for Parent or the Company shall be conclusively presumed to be done, or omitted to be done, by the

Executive in good faith and in the best interests of the Company. The acts and/or omissions which are alleged to constitute the basis for a Cause termination shall be identified to the Executive in reasonable detail in writing, at the time of any such termination of the Executive's employment for Cause.

(c) Good Reason. The Executive's employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean a material breach by the Company or Parent of a material provision of this Agreement. Without limiting the generality of the foregoing, Parent and the Executive agree that any of the following would constitute a material breach of this Agreement by Parent: (i) any reduction in the Executive's base salary or annual bonus (other than a reduction consented to by the Executive in writing, including, without limitation, any reduction contemplated by Section 3(b)(vi)); (ii) any material adverse change (without his prior written consent) in the Executive's duties and responsibilities, or titles, as set forth in Section 3(a)(i) and Exhibit A attached hereto; and (iii) any relocation of his principal place of employment in violation of Section 3(a)(i) and Exhibit A attached hereto.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 10(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive, the Company or Parent to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive, the Company or Parent, respectively, hereunder or preclude the Executive, the Company or Parent, respectively, from asserting such fact or circumstance in enforcing the Executive's, the Company's or Parent's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company or Parent for Cause, or by the Executive with or without Good Reason, the date of receipt of the Notice of Termination or any later date specified therein within 30 days of such notice, as the case may be, (ii) if the Executive's employment is terminated by the Company or Parent other than for Cause or Disability, the Date of Termination shall be the date on which the Company or Parent notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

5. Obligations of the Company upon Termination, (a) Good Reason; Other Than for Cause, Death or Disability. If, during the Employment Period, the Company or Parent shall terminate the Executive's employment other than for Cause, death or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. (1) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid ("Accrued Salary"), (2) the benefits described in Section 3(b)(xi) hereof and (3) any benefits to which the Executive is entitled under the terms and conditions of any applicable employee benefits plan, program or agreement (collectively, subclause (l)-(3) shall be referred to as the "Accrued Obligations"); and

B. a lump sum amount equal to the greater of (x) the severance under the severance policy applicable to similarly situated executives of the Company, as in effect from time to time, and (y) the sum of the Executive's Annual Base Salary and the Annual Bonus amount set forth in Section 3(b)(iii); and

C. a pro-rata portion of the Annual Bonus payable to the Executive under Section 3(b)(iii), which shall be determined by multiplying such bonus by a fraction, the numerator of which is the number of days in the calendar year in which the Executive's date of termination occurs which have elapsed prior to such date of termination and the denominator of which is 365; and

D. outplacement services for the duration and of the nature described in Section 8(c)(v) of the Prior Employment Agreement; and

(ii) to the extent granted prior to the Date of Termination, the 2001 Service Awards shall vest immediately.

(b) Death. If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, this Agreement shall terminate without further obligations to the Executive's legal representatives under this Agreement, other than the Accrued Obligations (to the extent applicable upon the Executive's death). Accrued Salary shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. In addition, (i) to the extent granted prior to the Date of Termination, all of the 2001 Service Awards shall become fully vested and, to the extent applicable, exercisable for the maximum period allowable under the applicable plan for a termination due to death and (ii) the Executive's estate shall be entitled to the death benefits as in effect on the date of the Executive's death with respect to similarly situated executives of the Company (including, with out limitation, any rights to accelerated vesting and enhanced exercise periods applicable in respect of any equity awards made to the Executive in connection with his employment after the Effective Date (excluding the 2001 Service Awards, which are addressed in subclause (i)) that are generally available to similarly situated executives of subsidiaries of Parent whose employment has terminated for such reason under the terms of the plan, program or arrangement under which such awards have been made (the "Equity Enhancements")).

(c) Disability. If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than in respect of the Accrued Obligations. Accrued

Salary shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. In addition, (i) to the extent granted prior to the Date of Termination, all of the 2001 Service Awards shall become fully vested and, to the extent applicable, exercisable for the maximum period allowable under the applicable Parent plan for a termination due to disability and (ii) the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits as in effect at any time thereafter generally with respect to similarly situated executives of the Company and to the Equity Enhancements).

(d) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause or the Executive terminates his employment without Good Reason during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive the Accrued Obligations and the only duties, obligations and liabilities of the Executive to the Company or Parent thereafter shall be the restrictive covenants set forth in Section 7 hereof.

6. Full Settlement. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company or Parent may have against the Executive or others.

7. Confidential Information; Noncompetition; Nonsolicitation.

(a) The Executive shall hold in a fiduciary capacity for the benefit of the Company and Parent all secret or confidential information, knowledge or data relating to the Company, Parent or any of their affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company, Parent or any of their affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Company, Parent or any of their affiliated companies, the Executive shall not, without the prior written consent of Parent or as may otherwise be required by law or legal process, communicate or divulge any such in formation, knowledge or data to anyone other than the Company, Parent or any of their affiliated companies and those designated by them.

(b) The Executive agrees that until the earlier of (i) the fourth anniversary of the Effective Date and (ii) the first anniversary of the Executive's termination of employment for any reason (the "Restricted Period"), the Executive will not, without the written consent of Parent, engage in any business of, or enter the employ of, or have any interest in, directly or indirectly, any other person, firm, corporation or other entity engaged in a business that competes with, or provides services and/or products of a nature substantially similar to those provided by, the Company, Parent or their affiliates, with an office or facility in any geographic area in which the Company, Parent or their affiliates do business. Nothing herein shall restrict the Executive from owning 1% or less of the outstanding securities of any corporation or other entity whose securities are listed on any national securities exchange or traded over-the-counter, if the Executive has no other connection or relationship with the issuer of such securities.

(c) During the Restricted Period, the Executive will not, directly or indirectly, on behalf of the Executive or any other person, solicit for employment or employ by other than the Company or Parent any person who, at any time during the six-month period immediately preceding the date of such solicitation, was an employee of the Company, Parent or any of their affiliates.

(d) The Executive acknowledges and agrees that due to the nature of business in which the Company, Parent and their affiliates are engaged and because of the nature of the confidential information to which the Executive has access, it would be impractical and excessively difficult to determine the actual damages of the Company or Parent in the event the Executive breached any of the covenants of this Section 7 and that remedies at law (such as monetary damages) for any breach of the Executive's obligations under this Section 7 would be inadequate. The Executive therefore agrees and consents that, if the Executive commits any breach of a covenant under this Section 7 or threatens to commit any such breach, the Company and Parent shall have the right (in addition to, and not in lieu of, any other right or remedy that may be available to each of them) to temporary and permanent injunctive relief from a court of competent jurisdiction. With respect to any provision of this Section 7 finally determined by a court of competent jurisdiction to be unenforceable, the Executive, the Company and Parent hereby agree that such court shall have jurisdiction to reform this Agreement or any provision hereof so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination.

(e) The provisions of this Section 7 shall remain in full force and effect until the expiration of the period specified therein, notwithstanding the earlier termination of the Executive's employment hereunder, the Employment Period or this Agreement, provided that the Effective Date has occurred.

8. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company and Parent shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement sha11 inure to the benefit of and be binding upon the Company and Parent and their respective successors and assigns.

(c) The Company and Parent will require any successor (whether direct or in-direct, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company or Parent, as applicable, to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company and/or Parent would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" and "Parent" shall mean the Company and Parent as hereinbefore defined and any successor to their respective businesses and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. As used in this Agreement, the term "affiliated companies" and "affiliates" shall include any company controlled by, controlling or under common control with the Company.

9. Dispute Mechanism.

(a) Pre-Effective Date Agreements. To the extent that there is any dispute between the parties with respect to any benefits payable hereunder which are due and payable under a Pre-Effective Date Agreement (including, without limitation, the amounts payable under Section 3(b)(i), the SERA benefits payable under Section 3(b)(v) and the benefits payable or provided under Section 5(a)(i)(D)), such dispute shall be resolved pursuant to the mechanism set forth in Section 20 of the Prior Employment Agreement, which is incorporated by reference herein and made a part hereof, and Parent shall be obligated to pay (or shall cause the Company to pay) the Executive's legal and arbitration fees and expenses as provided under Section 10 of the Prior Employment Agreement, which is incorporated by reference herein and made a part hereof.

(b) Benefits and Claims Not Related to the Pre-Effective Date Agreements. To the extent that there is any dispute between the parties with respect to any benefits payable hereunder which are not due and payable under a Pre-Effective Date Agreement (and therefore not subject to the dispute mechanism set forth in Section 9(a) above), Parent shall be obligated to pay (or shall cause the Company to pay) the Executive's legal and arbitration fees and expenses related to such dispute in the event that the Executive prevails at arbitration or trial as to any material issue presented in such dispute.

10. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive: At the most recent address on file at the Company

If to the Company: American General Corporation
2929 Allen Parkway
Houston, Texas 77019
Attention: General Counsel

Copy to Parent: American International Group, Inc.
70 Pine Street
New York, New York 10270
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company's obligations (i) to indemnify the Executive pursuant to Section 3(vii), (ii) to provide the Executive with benefits and compensation pursuant to Section 5, (iii) to pay any gross-up payment required to be paid under Section 3(b)(i), and (iv) to pay any amount not previously paid (and required to be paid hereunder) in respect of any Pre-Effective Date Agreement, as well as the dispute mechanisms set forth in Section 9, shall survive the termination of the Executive's employment hereunder, the Employment Period or this Agreement, provided that the Effective Date has occurred.

(e) None of the benefits provided to the Executive under any of the Pre-Effective Date Agreements or under Section 5 hereof shall be subject to any mitigation or offset, except as may otherwise be expressly provided hereunder.

(f) The Company or Parent may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(g) The Executive's or the Company's or Parent's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Company or Parent may have hereunder shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(h) From and after the Effective Date, this Agreement shall supersede and terminate the Severance Agreement, the Prior Employment Agreement, and any amendments thereto, except to the extent that any of the benefits made available under the Prior Employment Agreement are expressly intended to continue under the terms of this Agreement. From and after the Effective Date, the SERA and the Split-Dollar Agreement shall be amended in accordance with the terms hereof, and, upon satisfaction of the Company's obligations as set forth herein, the Company and Parent shall have no further obligations under such agreements.

IN WITNESS WHEREOF, THE Executive has hereunto set the Executive's hand and, pursuant to the authorization from their respective Boards of Directors, each of the Company and Parent has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Rodney O. Martin

RODNEY O. MARTIN

AMERICAN GENERAL CORPORATION

By /s/ Mark S. Berg

Name: Mark S. Berg
Title: Executive Vice President and
General Counsel

AMERICAN INTERNATIONAL GROUP, INC.

By /s/ Ernest T. Patrikis
____
Name: Ernest T. Patrikis
Title: Senior Vice President and
General Counsel

Exhibit A

Name: Rodney O. Martin

Position: Senior Vice Chairman

Adjustments to Responsibilities: Excluding responsibilities related to consumer finance.

Location: Houston, Texas

Cash Severance Amount: $5,062,500

Split-Dollar Payment: $572,052

Annual Bonus: $1,250,000

AMERICAN INTERNATIONAL GROUP, INC.
70 PINE STREET, NEW YORK. N.Y. 1O27O
TELEPHONE: 212 77O-7OOO

July 27, 2001

Rodney O. Martin
8855 Stable Lane
Houston, Texas 77024

Re: Amendment to Employment Agreement dated as of May 11, 2001

Dear Mr. Martin:

This letter confirms the following understandings reached among you, American International Group, Inc. ("Parent") and American General Corporation ("Company") with respect to the Employment Agreement dated as of May 11,2001 (the "Agreement") and constitutes an amendment to such Agreement:

1. Exhibit A to the Agreement is amended as follows:

   Adjustments to Responsibilities: The Executive's responsibilities will include the life insurance business of the Company on the Effective Date, together with the domestic life business of the Parent known as the AIG Life Companies (U.S.), AIG Life Company and American International Life Assurance Company of New York (these businesses collectively referred to herein as the "Reference Businesses"). The Executive's responsibilities will exclude responsibilities related to the consumer finance operations of the Company.

2. Section 3(b)(iii) of the Agreement is amended as follows: "Bonus. For each calendar year ending during the Employment Period, (a) the Executive shall receive (or at his election pursuant to the deferred compensation plan of the Company, if any, defer part or all of) an annual cash bonus of not less than $1,250,000 (the "Annual Bonus") no later than January 31 of the following year and (b) the Annual Bonus hereunder shall be in lieu of any bonus amount (or portion thereof) payable to the Executive under any agreement or bonus plan of the Company, Parent or any subsidiary of

Parent (other than the Supplementary Bonus as hereinafter described), including without limitation, the Company Performance-Based Plan for Executive Officers with respect to the calendar year in which the Effective Date occurs, and the Executive hereby waives all rights under such agreement or plans. For the calendar year within which the Employment Period ends, the Executive shall receive no later than January 31 of the following year (or at his election pursuant to the applicable deferred compensation plan of the Company, if any, defer part or all of) a bonus which shall equal or exceed an amount determined by multiplying the Annual Bonus by a fraction the numerator of which shall be the number of days in such calendar year which were included in the Employment Period and the denominator of which shall be 365.

For each calendar year ending during the Employment Period, the Executive will receive a minimum of $90,000 of bonus compensation (the "Supplementary Bonus") payable in equal quarterly amounts with regard to services performed in that year provided the Executive is employed by Parent or a subsidiary of Parent at the time of the respective quarterly payment when such payment becomes due."

3. Section 3(b)(iv) of the Agreement is amended as follows: "Incentive Awards. At the time equity grants are made to executive officers of the Parent in respect of services performed in the calendar year ending December 31, 2001, the Executive will be granted equity-based awards with respect to the common stock of Parent (the "2001 Service Awards"), pursuant to the terms of the applicable Parent plans or the applicable plans of Starr International Company, Inc. ("SICO"), as follows:

   - stock options with an exercise price equal to the fair market value of Parent common stock on the date of grant, vesting (subject to your continued employment with Parent or its subsidiaries on the vesting dates) in four equal installments on each of the first, second, third and fourth anniversaries of the date of grant, having an aggregate Black-Scholes valuation of $2,148,023 using a Black-Scholes factor of 0.4059;

   - Five year cliff vesting stock options (vesting (subject to your continued employment with Parent or its subsidiaries on the vesting

date) in full on the fifth anniversary of the date of grant) with an exercise price equal to the fair market value of Parent common stock on the date of grant having an aggregate Black-Scholes valuation of $2,520,000 using a Black-Scholes factor of 0.40;

- Performance share units having a maximum aggregate value of $3,825,000 based upon the fair market value on the date of grant which shall vest (subject to your continued employment with Parent or its subsidiaries on the vesting date) from 0 to 100 percent as soon as administratively feasible after December 31, 2004 (provided that, the receipt of shares of Parent common stock pursuant to such units may be deferred, at the election of the Executive, pursuant to an applicable deferral program of the Parent, if any) subject to achievement of mutually agreed performance standards to be established by you and Parent for the Reference Businesses:

Maximum [Performance Standard]	Maximum Shares Earned------100%
Target [Performance Standard]	Maximum Shares Earned------ 50%
Threshold [Performance Standard]	Maximum Shares Earned------ 25%
Below[Performance Standard]	Maximum Shares Earned------ 0%

and

- 900 participation units in the then current SICO Deferred Compensation Profit Participation Plan ("SICO Plan") (number of units determined using a valuation model for the shares of Parent common stock expected to be distributable with respect to such units in accordance with the terms of the SICO Plan using assumptions established on a basis consistent with those applied by Parent in valuing participation units for similarly situated executives of Parent).

In the event that the Executive receives any equity award grants (other than reload options) from the Company after the date hereof prior to the Effective Date, the 2001 Service Awards shall be reduced by the value of any such awards (determined using a Black-Scholes value with respect to options, using assumptions established on a basis consistent with those applied by the Company in determining such Black-Scholes

value in respect of the 2001 grants to the Executive, and the fair market value on the date of grant with respect to performance based and restricted stock awards)."

4. Section 3(b)(vi) of the Agreement is amended as follows: "Other Employee Benefit Plans. During the Employment Period, except as otherwise expressly provided herein, the Executive shall be entitled to participate in all employee benefit, welfare and other plans, practices, policies and programs generally applicable to similarly situated executives of the Company, provided that in no event shall the Executive be entitled to receive duplicate benefits with respect to the same period of service under any plans, practices, policies or programs of the Company and/or Parent. Notwithstanding anything contained herein to the contrary, the Executive expressly understands and agrees that he will not initially be entitled to become a stockholder of C.V. Starr & Co., Inc. ("Starr"), but that following the first anniversary of the Effective Time, Parent will recommend to the Board of Directors of Starr that the Executive be eligible to become a stockholder of Starr, consistent with similarly situated executives of subsidiaries of Parent. Any Participation as a stockholder of Starr will require a mutually agreeable reduction in other compensation payable or provided to the Executive, including without limitation the Base Salary, the Annual Bonus and the Supplementary Bonus, and such reduction will be a condition to such participation and will in no way be deemed a breach of this Agreement. Any reduction in the compensation otherwise payable hereunder shall be agreed to, in writing, by the parties in advance of the time such reduction is to be effective, and such writing shall set forth, in reasonable detail sufficient for the Executive to understand, the compensation being provided in lieu thereof and all vesting and forfeiture provisions related thereto (and other restrictions, if any, on the ability of the Executive to access or receive such compensation).

5. The Executive agrees that this letter agreement constitutes his written consent to changes in his compensation arrangements and duties and responsibilities and under no circumstances shall such changes constitute "Good Reason" for termination by the Executive as defined in Section 4(c) of the Agreement.

6. From and after the date hereof, the Agreement is hereby amended by this letter agreement, in accordance with Section 10(a) of the Agreement.

Very truly yours,

American International Group, Inc.	American General Corporation
By: /s/ M.R.Greenberg	By: /s/ Gary D.Reddick
Name: M.R. Greenberg	Name: Gary D.Reddick
Title: Chairman	Title: Executive Vice President

Accepted and Agreed as of August 7, 2001

/s/ Rodney O. Martin

Rodney O. Martin

SPLIT-DOLLAR AGREEMENT

THIS SPLIT-DOLLAR AGREEMENT (this "Agreement") is made and entered into effective as of May 15, 2000 (the "Effective Date"), by and among AMERICAN GENERAL CORPORATION, a Texas corporation, with principal offices and place of business in Houston, Texas (hereinafter referred to as the "Company"), RODNEY O. MARTIN, JR. (hereinafter referred to as the "Executive"), and Rodney O. Martin, Sr., Trustee of the Martin 1996 Children's Trusts Agreement dated December 10,1996 (hereinafter referred to as the "Owner"),

WITNESSETH THAT:

WHEREAS, the Executive is currently employed by the Company or an affiliate of the Company; and

WHEREAS, the Personnel Committee of the Board of Directors of the Company initially authorized the Company to establish and pay premiums under a split-dollar life insurance arrangement relating to a life insurance policy insuring the life of the Executive and providing the Executive's family with a death benefit equal to 200% of the sum of the Executive's base salary and average annual incentive bonus; and

WHEREAS, the Personnel Committee has subsequently authorized the Company, at the Owner's election, to pay such premium amounts with respect to a new life insurance policy insuring the lives of the Executive and his spouse as of the Effective Date (the "Spouse"); and

WHEREAS, the Owner has elected that this split-dollar arrangement should relate to a life insurance policy insuring the lives of the Executive and the Spouse; and

WHEREAS, in order to retain the benefits of the services of the Executive for the Company and its affiliates, the Company desires to assist the Executive in providing life insurance protection for the Executive's family under a policy of life insurance (hereinafter referred to as the "Policy") insuring the lives of the Executive and the Spouse, which Policy is described in Exhibit A attached hereto and by this reference made a part hereof, and which is being issued by American General Life Insurance Company (hereinafter referred to as the "Insurer"); and

WHEREAS, the Company is willing to pay all of the premiums due on the Policy as an additional employment benefit for the Executive, on the terms and conditions hereinafter set forth; and

WHEREAS, the Owner will be the owner of the Policy and, as such, will possess all incidents of ownership in and to the Policy; and

WHEREAS, the Company wishes to have the Policy collaterally assigned to it by the Owner in order to secure the repayment of the amounts which it will pay toward the premiums on the Policy;

NOW, THEREFORE, in consideration of the premises and of the mutual promises contained herein, the parties hereto agree as follows:

1. DEFINED TERMS. The terms "Agreement," "Company," "Effective Date," "Executive," "Insurer," "Owner," "Policy," and "Spouse" shall have the meanings assigned to such terms in the preceding provisions of this Agreement. Where the following words and terms are used in this Agreement, they shall have the respective meanings set forth below, unless the context clearly indicates to the contrary:

(a) AFFILIATE: The term "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Securities Exchange Act of 1934, as amended from time to time.

(b) ANNIVERSARY DATE: Each annual anniversary of the Effective Date; provided, however, that for purposes of Paragraph l(d) below, the Effective Date shall also be considered an Anniversary Date.

(c) AVERAGE ANNUAL BONUS: As of any date for which the Benefit Amount must be determined pursuant to the terms of this Agreement, an amount equal to the average of the three most recent annual incentive bonuses paid in cash by the Company (or an Affiliate of the Company) to the Executive on or before the Anniversary Date next preceding such date for which the Benefit Amount is determined.

(d) BASE SALARY: As of any date for which the Benefit Amount must be determined pursuant to the terms of this Agreement, the Executive's annual base salary from the Company or an Affiliate of the Company at the rate in effect on the Anniversary Date next preceding such date.

(e) BENEFIT AMOUNT: As of any given date, an amount equal to 445.15% of the sum of the Executive's Base Salary and Average Annual Bonus as of such date. Notwithstanding the foregoing or any provision in this Agreement to the contrary, the Benefit Amount shall not be increased at any time after the Effective Date to the extent such increase is subject to the medical underwriting requirements of the Insurer and the Insurer refuses to increase the face amount of the Policy based upon the health or medical condition of the Executive or the Spouse.

(f) CAUSE: The term "Cause" shall have the meaning assigned to such term in the Change in Control Severance Agreement.

(g) CHANGE IN CONTROL: The term "Change in Control" shall have the meaning assigned to such term in the Change in Control Severance Agreement.

(h) CHANGE IN CONTROL SEVERANCE AGREEMENT: The Change in Control Severance Agreement between the Company and the Executive that is in effect on the Effective Date (or any successor agreement thereto).

(i) CLAIMANT: The term "Claimant" shall have the meaning assigned to such term in Paragraph 10 hereof.

(j) DISABLED: The Executive shall be considered "Disabled" for purposes of this Agreement at such time as the Executive becomes entitled to receive* long-term disability benefits under a long-term disability plan maintained by the Company or an Affiliate of the Company.

(k) MEASUREMENT DATE: The earlier of (1) the date upon which the Executive's employment with the Company terminates for any reason whatsoever (including, without limitation, termination of employment by reason of the death or retirement of the Executive), (2) the date upon which the Executive becomes Disabled, or (3) the effective date of the termination of this Agreement pursuant to Paragraph 8 hereof.

(1) NORMAL RETIREMENT DATE: The term "Normal Retirement Date" shall have the meaning assigned to such term in the Supplemental Executive Retirement Agreement between the Company and the Executive that is in effect on the date of the execution of this Agreement.

(m) PREMIUM PAYMENT PERIOD: A period of 8 years commencing on the Effective Date; provided, however, that upon written notice to the Owner and the Executive prior to the occurrence of a Change in Control, the Company may from time to time extend the Premium Payment Period for any period determined by the Company that ends on or before the later of (1) the Executive's Normal Retirement Date or (2) the fifteenth Anniversary Date.

(n) RELEVANT ASSUMPTIONS: As of any given date, (1) the Company's assumption as of such date with respect to the rate of increase, if any, in the Benefit Amount from such date to the Executive's Normal Retirement Date (or, if the Executive continues his or her employment with the Company beyond the Executive's Normal Retirement Date, to the Executive's projected date of retirement from the Company) and (2) current mortality rates and charges, crediting rates, expenses, and other relevant matters applicable to the Policy as of such date. Notwithstanding the foregoing, the assumed rate of increase in the Benefit Amount shall be 0% from and after the Measurement Date.

2. ACQUISITION AND OWNERSHIP OF POLICY; LIMITATIONS ON OWNER'S RIGHTS IN POLICY.

(a) The Owner shall contemporaneously purchase the Policy from the Insurer in the initial total face amount specified in Exhibit A attached hereto. The parties hereto agree that they shall take all reasonable action necessary to cause the Insurer to issue the Policy, and

shall take any further reasonable action which may be necessary to cause the Policy to conform to the provisions of this Agreement. The parties hereto agree that the Policy shall be subject to the terms and conditions of this Agreement and of the collateral assignment filed with the Insurer relating to the Policy.

(b) The Policy names the Owner, and the Owner shall be, the sole and absolute owner of the Policy. The Owner shall not exercise any of the ownership rights granted to the owner of the Policy by the terms thereof except with the express written consent of the Company. Without limiting the scope of the foregoing, the Owner shall not sell, assign, transfer, borrow against or withdraw from the cash surrender value of the Policy, change the beneficiary designation provision of the Policy, change the elected death benefit option provisions of the Policy, decrease or increase the face amount of insurance, surrender or cancel the Policy, or take any other action with respect to the Policy without, in any such case, the express written consent of the Company.

(c) Notwithstanding the provisions of Paragraph 2(b) above, the Owner shall have the right to take any of the following actions without the express written consent of the Company, provided that the Owner provides the Company with 15 days prior written notice of any such action: (1) designate the beneficiary or beneficiaries to receive the portion of the proceeds payable under the Policy specified in Paragraph 7(b) hereof; (2) elect the settlement option with respect to such proceeds from among the settlement options available under the Policy; and (3) change such beneficiary designation and settlement option from time to time.

3. COLLATERAL ASSIGNMENT; LIMITATION ON COMPANY'S RIGHTS IN POLICY.

(a) To secure the repayment to the Company of the amount of the premiums on the Policy paid by the Company hereunder, the Owner has, contemporaneously herewith, assigned the Policy to the Company as collateral under a separate assignment instrument. The collateral assignment of the Policy to the Company shall not be terminated, altered or amended by the Owner, without the express written consent of the Company. The parties hereto agree to take all action necessary to cause such collateral assignment to conform to the provisions of this Agreement and to be accepted by the Insurer. Without limiting the scope of the preceding provisions of this Paragraph 3, the parties hereto agree that the Company shall have an interest in the cash surrender value and the death benefits under the Policy to secure the amounts due to the Company hereunder, which interest shall in no event be less than the aggregate premium payments made with respect to the Policy by the Company pursuant to Paragraph 5 below.

(b) The Company shall not at any time prior to the termination of this Agreement (1) take any action that would cause the death benefits under the Policy that would be available for distribution to the beneficiary or beneficiaries designated by the Owner as provided herein to be less than the Benefit Amount (determined as of the earlier of the Measurement Date or the date such action was taken by the Company) and (2) from and after the date upon which a Change in Control occurs, borrow against the Policy, pledge the Policy as collateral for a loan, withdraw any amount from the Policy or otherwise access any funds held under the Policy until such time as the beneficiary or beneficiaries designated by the Owner have received all of the Policy death benefits to which they are entitled pursuant to the provisions of this Agreement.

4. ADJUSTMENTS TO POLICY FACE AMOUNT. On each Anniversary Date that occurs prior to the Measurement Date, the parties hereto shall cause the total face amount of the Policy to be adjusted to the extent necessary, if any, so that such face amount is equal to the Benefit Amount (which Benefit Amount shall be determined as of the day immediately following such Anniversary Date); provided, however, that if any such adjustment would require a reduction in the face amount of the Policy, then the Company may, in its sole discretion, determine that no such adjustment to the face amount of the Policy shall be made for such Anniversary Date. The parties hereto agree that they shall take all reasonable action necessary to cause the Insurer to adjust the face amount of the Policy as provided in the preceding provisions of this Paragraph 4. Without limiting the scope of the foregoing, (a) the Executive, the Spouse and the Owner shall furnish any and all information requested by the Company or the Insurer to facilitate an adjustment to the face amount of the Policy and (b) the Executive and the Spouse shall take such physical examinations as the Insurer may deem necessary.

5. PAYMENT OF PREMIUMS.

(a) On the Effective Date and on or before each Anniversary Date, the Company shall pay to the Insurer, as premium payments with respect to the Policy, the amount, if any, determined by the Company in its sole discretion; provided, however, that:

(1) on the Effective Date and on each Anniversary Date that occurs during the Premium Payment Period and prior to the termination of this Agreement, the Company shall make substantially level premium payments with respect to the Policy based upon a premium payment policy established by the Company that is designed to (i) maintain the Policy in a manner sufficient to provide the level of death benefits to the Owner's beneficiary or beneficiaries pursuant to Paragraph 7(b) hereof in the event of the deaths of both the Executive and the Spouse prior to the end of the Premium Payment Period and (ii) accumulate sufficient funds under the Policy (based upon the assumption that the Executive will retire as of the Executive's Normal Retirement Date) so that as of the end of the Premium Payment Period the Policy is projected to have sufficient funds to (A) at all times thereafter provide a minimum death benefit in an amount equal to the Benefit Amount without any further premium payments and (B) permit the Owner to terminate this Agreement as of the later of the Executive's Normal Retirement Date or the fifteenth Anniversary Date and use accumulations under the Policy to obtain the release of the collateral assignment of the Policy to the Company; and

(2) on each Anniversary Date that occurs after the end of the Premium Payment Period and prior to the termination of this Agreement, the Company shall make a premium payment with respect to the Policy in at least the amount required so that as of such Anniversary Date the Policy is projected to have sufficient funds to (i) at all times thereafter provide a minimum death benefit in an amount equal to the Benefit Amount without any further premium payments and (ii) permit the Owner to terminate this Agreement as of the later of the Executive's Normal Retirement Date or the fifteenth Anniversary Date and use accumulations under the Policy to obtain the release of the collateral assignment of the Policy to the Company.

The amount of each premium payment required pursuant to clauses (1) and (2) of the preceding sentence shall be determined based upon (i) the Relevant Assumptions in effect as of the date such premium payment is required to be paid by the Company pursuant to this Paragraph 5(a) and (ii) if the Measurement Date has not occurred as of such premium payment date, the Company's estimate of the date upon which the Measurement Date will occur (which date shall be estimated to be no earlier than the Executive's Normal Retirement Date). The Owner and the Executive acknowledge and agree that (A) the Company is agreeing to make premium payments with respect to the Policy as described above based upon the Relevant Assumptions and for the period of time set forth in this Agreement, (B) the actual crediting rates under the Policy and the charges and expenses incurred with respect to the Policy may deviate from the rates, charges and expenses utilized from time to time under the Relevant Assumptions, and (C) accordingly, the Company makes no guarantee that the Policy will, in fact, have sufficient funds to provide a minimum death benefit in an amount equal to the Benefit Amount at all times after the termination of this Agreement without any further premium payments. The Company shall promptly notify the Owner of the date and the amount of each premium payment made by the Company with respect to the Policy and, promptly upon receipt, the Owner shall furnish the Company with a copy of the annual report for the Policy received by the Owner from the Insurer.

(b) If the Executive's employment with the Company is terminated under circumstances pursuant to which the Executive is entitled to a severance benefit under the Change in Control Severance Agreement, then the Company shall promptly pay into a rabbi trust a single lump sum cash payment in an amount equal to the projected amount of premium payments that the Company would be required to make with respect to the Policy pursuant to Paragraph 5(a) hereof during the 36 month period immediately following such termination of employment. Pursuant to the terms of the rabbi trust, on each of the first three Anniversary Dates that occur after the termination of the Executive's employment with the Company, the trustee of the rabbi trust shall pay to the Insurer as a premium with respect to the Policy one- third of the amount initially deposited in the rabbi trust by the Company. After the trustee has made three such premium payments, the rabbi trust shall terminate and any remaining funds held by the trustee shall be returned to the Company. Notwithstanding the foregoing, the Company shall remain obligated to make all premium payments required pursuant to Paragraph 5(a) hereof; provided, however, that the Company shall be relieved of such obligation to the extent of the amount of each premium payment made by the trustee of the rabbi trust with respect to the Policy. All costs and expenses associated with the establishment and maintenance of the rabbi trust shall be paid by the Company.

(c) Neither the Executive, the Spouse, nor the Owner shall have any obligation to pay any premiums with respect to the Policy prior to the termination of this Agreement. The Company shall have no obligation to pay any premiums with respect to the Policy from and after the termination of this Agreement pursuant to Paragraph 8 below.

6. PROVISION OF INFORMATION. On or before January 31 of each calendar year, the Company shall furnish to the Executive a statement of the amount of income, if any, reportable by the Executive for federal and state income tax purposes for the preceding calendar year as a result of the existence and maintenance of the Policy. The Owner and the Executive shall

promptly furnish the Company with (a) copies of any information or notices provided by the Insurer from time to time with respect to the Policy and (b) any other material or information relating to the Policy and reasonably requested by the Company from time to time. Upon request, the Company shall promptly furnish to the Owner evidence of timely payment of any amount required to be paid by the Company pursuant to Paragraph 5 hereof.

7. COLLECTION AND DISTRIBUTION OF DEATH PROCEEDS.

(a) Upon the death of the second to die of the Executive and the Spouse prior to the termination of this Agreement, the Company and the Owner shall cooperate with the beneficiary or beneficiaries designated by the Owner to take whatever action is necessary to collect the death benefit provided under the Policy. When such benefit has been collected and paid as provided herein, this Agreement shall thereupon terminate.

(b) Upon the death of the second to die of the Executive and the Spouse prior to the termination of this Agreement, the beneficiary or beneficiaries designated by the Owner pursuant to Paragraph 2(c) hereof shall be entitled to receive a portion of the death benefits provided under the Policy in an amount equal to the Benefit Amount determined as of the Measurement Date. This amount shall be paid under the settlement option elected by the Owner.

(c) Upon the death of the second to die of the Executive and the Spouse prior to the termination of this Agreement, the Company shall have the unqualified right to receive any and all of the death benefits provided under the Policy in excess of the amount payable pursuant to Paragraph 7(b) above to the beneficiary or beneficiaries designated by the Owner. This amount shall be paid to the Company in a single lump sum cash payment.

(d) The parties hereto agree that, upon the request of the Company, the beneficiary designation provision of the Policy shall conform to the provisions hereof.

8. TERMINATION OF AGREEMENT.

(a) This Agreement may be terminated by the Owner at any time during the lifetime of the Executive or the Spouse after the fifteenth Anniversary Date upon written notice to the Company and payment to the Company by the Owner at the time of such notice of a single lump sum cash payment in an amount equal to the aggregate premium payments made by the Company pursuant to Paragraph 5 hereof on or before the date of such termination, less any withdrawals from the Policy by the Company prior to the date of such termination and any indebtedness secured by the Policy which was incurred by the Company and remains outstanding as of the date of such termination, including any unpaid accrued interest on such indebtedness. Upon receipt of such amount, the Company shall release the collateral assignment of the Policy by the execution and delivery of an appropriate instrument of release.

(b) This Agreement may be terminated by the Company at any time during the Executive's lifetime (including, without limitation, upon the Executive's termination of employment with the Company or at any time before or after such termination); provided, however, that (i) from and after the Executive's Normal Retirement Date, this Agreement may

not be terminated by the Company until the later of such Normal Retirement Date, the date upon which the Executive's employment with the Company terminates, the expiration of the Premium Payment Period or the fifteenth Anniversary Date, (ii) from and after the date upon which the Executive becomes Disabled, this Agreement may not be terminated by the Company until the earlier of the Executive's Normal Retirement Date, the expiration of the Premium Payment Period, the fifteenth Anniversary Date or the third anniversary of the date upon which the Executive becomes Disabled, and (iii) from and after the date upon which a Change in Control occurs, this Agreement may be terminated by the Company only on or after the date upon which the Executive's employment with the Company terminates (except that, if the Executive's employment with the Company terminates under circumstances pursuant to which the Executive is entitled to a severance benefit under the Change in Control Severance Agreement, then this Agreement may not be terminated by the Company until the third anniversary of the date of such termination of employment). The Company shall provide the Owner and the Executive with 30 days' prior written notice of any such termination of this Agreement by the Company. If this Agreement is terminated by the Company as provided in the preceding provisions of this Paragraph 8(b), then for 60 days after the effective date of the termination of this Agreement, the Owner shall have the option of obtaining the release of the collateral assignment of the Policy to the Company. To obtain such release, the Owner shall repay to the Company the total amount of the premium payments made by the Company hereunder, less any withdrawals from the Policy by lie Company prior to the date of such termination and any indebtedness secured by the Policy which was incurred by the Company and remains outstanding as of the date of such termination, including any unpaid accrued interest on such indebtedness. Upon receipt of such amount, the Company shall release the collateral assignment of the Policy by the execution and delivery of an appropriate instrument of release. If the Owner fails to exercise such option within such 60 day period, then the interest of the Owner in the Policy shall automatically be transferred to the Company and the Owner shall execute any document or documents requested by the Company or the Insurer to effect such transfer. Alternatively, the Company may enforce its right to be repaid the amount due it hereunder from the cash surrender value of the Policy under the collateral assignment of the Policy; provided that in the event the cash surrender value of the Policy exceeds the amount due the Company, such excess shall be paid to the Owner. Thereafter, neither the Owner nor any person claiming under the Owner shall have any further interest in and to the Policy, either under the terms thereof or under this Agreement.

(c) Notwithstanding any provision in this Agreement to the contrary, if the Executive's employment with the Company is terminated for Cause at any time (whether before or after the Executive attains his or her Normal Retirement Date), then (i) this Agreement shall automatically terminate upon such termination of employment, (ii) the interest of the Owner in the Policy shall automatically be transferred to the Company and the Owner shall execute any document or documents requested by the Company or the Insurer to effect such transfer, (iii) the Company may exercise all rights of ownership of the Policy, take all proceeds of the Policy, take proceeds designated for the beneficiary or beneficiaries designated by the Owner, assign its ownership interest in the Policy to any other party or take any other action the Company determines in its sole discretion, and (iv) neither the Owner, the Executive nor their respective heirs, assigns, personal representatives, or beneficiaries shall have any further rights, claims, or interests of any nature whatsoever in the Policy or in this Agreement.

(d) It is a condition precedent to the execution of this Agreement that the Owner and the Executive acknowledge and agree that the Company has the right, subject to certain limitations set forth in Paragraph 8(b) hereof, to terminate this Agreement at any time for any reason whatsoever or for no reason at all. Without limiting the scope of the foregoing, the Owner and the Executive specifically acknowledge and agree that the Company shall have the right to terminate this Agreement prior to the occurrence of a Change in Control in the event that the premiums required to be paid under the Policy are increased due to a deterioration in the health or medical condition of the Executive after the Effective Date. In such event, the Owner and the Executive hereby waive, and agree that they shall not assert, any claim or cause of action, in contract, tort or otherwise, against the Company, any Affiliate of the Company or any employee, director, officer or agent of the Company or any such Affiliate with respect to the termination of this Agreement, including, without limitation, any claim or cause of action based on any alleged discriminatory practice. By entering into this Agreement, the parties hereto agree that the conditions and provisions set forth in this Paragraph 8(d) are an essential component of this Agreement, and it is their intent that such conditions and provisions not be severed from the other terms and provisions of this Agreement.

(e) Should Executive and Company enter into an Employment Agreement which is in effect on the date of the termination of Executive's employment, and which contains specific terms with respect to the treatment of Executive's split-dollar insurance following termination of employment, such terms of the Employment Agreement shall control notwithstanding any provisions to the contrary set forth in Paragraph 8 herein.

9. INSURER NOT A PARTY. Subject to the terms and conditions of the Policy, the Insurer shall be folly discharged from its obligations under the Policy by payment of the Policy death benefit to the beneficiary or beneficiaries named in the Policy and upon the performance of its other obligations in accordance with the terms of the Policy. In no event shall the Insurer be considered a party to this Agreement, or any modification or amendment hereof. No provision of this Agreement, nor of any modification or amendment hereof, shall in any way be construed as enlarging, changing, varying, or in any other way affecting the obligations of the Insurer as expressly provided in the Policy.

10. NAMED FIDUCIARY, DETERMINATION OF BENEFITS, CLAIMS PROCEDURE AND ADMINISTRATION.

(a) NAMED FIDUCIARY. The Company is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of this Agreement, and it shall be responsible for establishing and carrying out a premium payment policy and method consistent with the objectives of this Agreement.

(b) (1) CLAIM. A person who believes that he or she is being denied a benefit to which he or she is entitled under this Agreement (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Company, setting forth his or her claim. The request must be addressed to the Company at its then principal place of business.

(2) CLAIM DECISION. Upon receipt of a claim, the Company shall advise the Claimant that a reply will be forthcoming within 90 days and shall, in fact, deliver such reply within such period. The Company may, however, extend the reply period for an additional 90 days for reasonable cause.

If the claim is denied in whole or in part, the Company shall adopt a written opinion, using language calculated to be understood by the Claimant, setting forth: (i) the specific reason or reasons for such denial; (ii) the specific reference to pertinent provisions of this Agreement on which such denial is based; (iii) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (iv) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (v) the time limits for requesting a review under subsection (3) and for review under subsection (4) hereof.

(3) REQUEST FOR REVIEW. Within 60 days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Company review its determination. Such request must be addressed to the Company, at its then principal place of business. The Claimant or his or her duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the Company. If the Claimant does not request a review of the Company's determination within such 60 day period, he or she shall be barred and estopped from challenging the Company's determination.

(4) REVIEW OF DECISION. Within 60 days after the Company's receipt of a request for review, it will review the determination. After considering all materials presented by the Claimant, the Company will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Agreement on which the decision is based. If special circumstances require that the 60 day time period be extended, the Company will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.

11. ARBITRATION.

(a) Upon completion of the claims procedure described in Paragraph 10(b) hereof (if applicable), all claims, demands, causes of action, disputes, controversies, and other matters in questions arising out of or relating to this Agreement, any provision hereof, the alleged breach thereof, or in any way relating to the subject matter of this Agreement involving the parties hereto and/or their respective representatives, even though some or all of such claims allegedly are extra-contractual in nature, whether such claims sound in contract, tort, or otherwise, at law or in equity, under state or federal law, whether provided by statute or the common law, for damages or any other relief, shall be resolved by binding arbitration pursuant to the Federal Arbitration Act in accordance with the Employment Dispute Resolution Rules then in effect with the American Arbitration Association. The arbitration proceeding shall be

conducted in Houston, Texas. This agreement to arbitrate shall be enforceable in either federal or state court.

(b) The enforcement of this agreement to arbitrate and all procedural aspects of this agreement to arbitrate, including but not limited to, the construction and interpretation of this agreement to arbitrate, the issues subject to arbitration (i.e., arbitrability), the scope of the arbitrable issues, allegations of waiver, delay or defenses to arbitrability, and the rules governing the conduct of the arbitration, shall be governed by and construed pursuant to the Federal Arbitration Act and shall be decided by the arbitrators. In deciding the substance of any such claims, the arbitrators shall apply the substantive laws of the State of Texas (excluding Texas choice-of-law principles that might call for the application of some other state's law); provided, however, it is expressly agreed that the arbitrators shall have no authority to award treble, exemplary, or punitive damages under any circumstances regardless of whether such damages may be available under Texas law, the parties hereby waiving their right, if any, to recover treble, exemplary, or punitive damages in connection with any such claims. If any party to this Agreement institutes arbitration to enforce the terms of this Agreement, the party who prevails in such arbitration, whether plaintiff or defendant, in addition to the remedy or relief obtained in such arbitration proceeding shall be entitled to recover its or his expenses incurred in connection with such-arbitration proceeding, including, without limitation, arbitrators and attorneys fees, and the arbitrators are authorized to so award such costs and fees.

(c) The arbitration may be initiated by any party by providing to the other parties a written notice of arbitration specifying the claims. Within 30 days of the notice of initiation of the arbitration procedure, (1) the Owner and the Executive, acting together, shall denominate one arbitrator and (2) the Company shall denominate one arbitrator. The two arbitrators shall select a third arbitrator failing agreement on which within 60 days of the original notice, either the Owner, the Executive or the Company shall apply to the Senior Active United States District Judge for the Southern District of Texas, who shall appoint a third arbitrator. While the third arbitrator shall be neutral, the two party-appointed arbitrators are not required to be neutral and it shall not be grounds for removal of either of the two party-appointed arbitrators or for vacating the arbitrators' award that either of such arbitrators has past or present minimal relationships with the party that appointed such arbitrator. Evident partiality on the part of an arbitrator exists only where the circumstances are such that a reasonable person would have to conclude there in fact existed actual bias. A mere appearance or impression of bias will not constitute evident partiality or otherwise disqualify an arbitrator.

(d) The three arbitrators shall by majority vote resolve all disputes between the parties. There shall be no transcript of the hearing before the arbitrators. The arbitrators' decision shall be in writing, but shall be as brief as possible. The arbitrators shall not assign the reasons for their decision. The arbitrators shall certify in their award that they have faithfully applied the terms and conditions of this Agreement and that no part of their award includes any amount for exemplary or punitive damages. All proceedings conducted hereunder and the decision of the arbitrators shall be kept confidential by the parties, e.g., the arbitrators' award shall not be released to the press or published in any of the various arbitration reporters. Judgment upon any award rendered in any such arbitration proceeding may be entered by any federal or state court having jurisdiction.

12. AMENDMENT. This Agreement may not be amended, altered, or modified, except by a written instrument signed by the parties hereto, or their respective successors or assigns. Notwithstanding the foregoing or any other provision herein to the contrary, the Premium Payment Period, the face amount of the Policy, the amount of premiums to be paid by the Company, and/or the references in this Agreement to the fifteenth Anniversary Date may be changed by the Company without the consent of the Owner or the Executive to the extent necessary to (a) maintain the Policy as a "life insurance contract" (within the meaning of Section 7702 of the Internal Revenue Code of 1986, as amended (the "Code"), and the interpretative authority promulgated thereunder) and (b) prevent the Policy from constituting a "modified endowment contract" (within the meaning of Section 7702A of the Code and the interpretative authority promulgated thereunder). The Company shall provide the Owner and the Executive with prompt written notice of any such change.

13. BINDING EFFECT. This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns, and the Owner, the Executive and their respective successors, assigns, heirs, executors, administrators, and beneficiaries; provided, however, that the rights and obligations of the Owner and the Executive hereunder are personal and neither this Agreement, nor any right, benefit, or obligation of the Owner or the Executive hereto, shall be subject to voluntary or involuntary assignment, alienation or transfer, whether by operation of law or otherwise, without the prior written consent of the Company.

14. NOTICE. Any notice, consent or demand required or permitted to be given under the provisions of this Agreement shall be in writing, and shall be signed by the party giving or making the same. If such notice, consent or demand is mailed to a party hereto, it shall be sent by United States registered or certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Company. The date of such mailing shall be deemed the date of notice, consent or demand.

15. EMPLOYMENT RELATIONSHIP. For all purposes of this Agreement, the Executive shall be considered to be in the employment of the Company as long as the Executive remains an employee of the Company or any Affiliate of the Company. However, this Agreement is not an employment agreement. This Agreement shall not be construed as creating an express or implied contract of employment and does not modify the nature of the Executive's employment relationship with the Company or its Affiliates, as the case may be. Except as otherwise agreed in writing between the Executive and the Company or an Affiliate of the Company, the employment relationship between the Executive and the Company or its Affiliates is at-will, i.e., the employment relationship may be terminated at any time at the will of either the Company or the Executive for any reason or no reason at all.

16. TAXES AND POLICY ILLUSTRATIONS. The Company makes no guarantees and assumes no obligations or responsibilities with respect to the Owner's, the Executive's or the Spouse's federal, state, or local income, estate, inheritance, and gift tax obligations, if any, under this Agreement, the Policy or the collateral assignment of the Policy to the Company. The Executive and the Owner agree and acknowledge that the Policy illustrations provided prior to the Effective Date and any Policy illustrations that may be provided from time to time thereafter

by the Company, the Insurer or their respective agents and representatives are not guaranteed and are not a part of the Policy or this Agreement. Such Policy illustrations shall not create any additional obligations or responsibilities to the Executive or the Owner by the Company, the Insurer, or their respective agents and representatives.

17. Governing Law. This Agreement, and the rights of the parties hereunder, shall be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this the 26th day of October, 2000, effective as of the Effective Date.

AMERICAN GENERAL CORPORATION

By: /S/ Gary D. Reddick

Gary D. Reddick
Executive Vice President and
Chief Administrative Officer -
Corporate Operations

COMPANY

RODNEY O. MARTIN, JR.

/s/ Rodney O. Martin, Jr.

EXECUTIVE

THE MARTIN 1996 CHILDREN'S TRUSTS
AGREEMENT

/s/ Rodney O. Martin, Jr.

Trustee

OWNER

EXHIBIT A

The following life insurance policy is subject to the attached Split-Dollar Agreement:

Insurer:	American General Life Insurance Company
Insured:	Rodney O. Martin, Jr. AND Deborah S. Martin
Policy Number:	A10192468L
Face Amount on the Effective Date:	$ 10,355,710.00
Effective Date of Policy:	May 15, 2000

ASSIGNMENT OF LIFE INSURANCE POLICY AS COLLATERAL

A. FOR VALUE RECEIVED, the undersigned (hereinafter the "Owner") hereby assigns, transfers and sets over to American General Corporation, with principal offices and place of business in Houston, Texas, its successors and assigns (hereinafter the "Assignee"), Policy No. A10192468L issued by American General Life Insurance Company (hereinafter the "Insurer"), and any supplementary contracts issued in connection therewith (said policy and contracts hereinafter the "Policy"), insuring the lives of RODNEY O. MARTIN, JR. (the "Executive") and his spouse, Deborah S. Martin as of the date hereof, and all claims, options, privileges, rights, title and interest therein and thereunder (except as otherwise provided herein), subject to all the terms and conditions of the Policy and to all superior liens, if any, which the Insurer may have against the Policy. The Owner, by this Assignment, and the Assignee, by acceptance of the assignment of the Policy to it hereunder, agree to the terms and conditions contained herein.

B. This Assignment is made and the Policy is to be held as collateral security for any and all liabilities and obligations of the Owner to the Assignee, either now existing or that may hereafter arise, under and pursuant to that certain Split-Dollar Agreement by and among the Owner, the Assignee, and the Executive, dated effective as of May 15, 2000 (hereinafter the "Split-Dollar Agreement"). The liabilities and obligations described in the preceding sentence are hereinafter referred to as the "Liabilities."

C. It is expressly agreed that, without detracting from the generality of the foregoing, the following specific rights are included in this Assignment and pass to the Assignee by virtue hereof:

1. The sole right to collect from the Insurer the net proceeds of the Policy when it becomes a claim by death or maturity;

2. The sole right to surrender the Policy and receive the surrender value thereof at any time provided by the terms of the Policy and at such other times as the Insurer may allow; and

3. The sole right to obtain one or more withdrawals, loans or advances on the Policy, either from the Insurer or, at any time, from other persons, and to pledge or assign the Policy as security for such loans or advances.

D. It is expressly agreed that the following specific rights, so long as the Policy has not been surrendered and to the extent permitted under the Split-Dollar Agreement, are reserved by the Owner and excluded from this Assignment and do not pass by virtue hereof:

1. The right to designate and change the beneficiary to receive the portion of the proceeds under the Policy specified in Paragraph 7(b) of the Split-Dollar Agreement; and

2. The right to elect any optional mode of settlement permitted by the Policy or allowed by the Insurer with respect to such proceeds.

However, the reservation of these rights by the Owner shall in no way impair the right of the Assignee to surrender the Policy nor impair any other right of the Assignee hereunder. Further, any exercise of these rights shall be made subject to this Assignment and to the rights of the Assignee hereunder.

E. Notwithstanding the foregoing, the Assignee covenants and agrees with the Owner as follows:

1. Any balance of sums received hereunder from the Insurer remaining after payment of the then existing Liabilities shall be paid by the Assignee to the persons entitled thereto under the terms of the Policy, had this Assignment not been executed;

2. The Assignee will not exercise the right to surrender the Policy, nor the right to make withdrawals from the Policy or obtain policy loans from the Insurer, unless and until there has been default in any of the Liabilities or the Split-Dollar Agreement has been terminated, pursuant to its terms; in any event, the Assignee will not exercise any such right until 15 days after the Assignee shall have mailed notice of intention to exercise such right, by first class mail, to the Owner at the address last supplied in writing to the Assignee specifically referring to this Assignment; and

3. The Assignee will, upon request, forward the Policy to the Insurer without unreasonable delay, for endorsement of any designation or change of beneficiary or any election of an optional mode of settlement that has been elected by the Owner.

F. The Insurer is hereby authorized to recognize the Assignee's claims to rights hereunder without investigating the reason for any action taken by the Assignee, the validity or the amount of the Liabilities, the existence of any default therein, termination of the Split-Dollar Agreement, the giving of any notice hereunder, or the application to be made by the Assignee of any amounts to be paid to the Assignee. The sole signature of the Assignee shall be sufficient for the exercise of any rights under the Policy assigned hereby and the sole receipt of the Assignee for any sums received shall be a full discharge and release therefor to the Insurer. Payment for all or any part of the sums due under the Policy and assigned herein shall be drawn to the exclusive order of or as directed by the Assignee if, when, and in such amounts as may be requested by the Assignee.

G. The Assignee shall be under no obligation to pay any premium on the Policy nor the principal of or interest on any loans or advances on the Policy, whether or not obtained by the Assignee, or any other charges on the Policy.

H. The exercise of any right, option, privilege or power given herein to the Assignee shall be at the option of the Assignee, and (except as provided herein) the Assignee may exercise any such right, option, privilege or power without notice to, or assent by, or affecting the liability of, or releasing any interest hereby assigned by the Owner.

I. If applicable, the Assignee may take or release other security, may release any party primarily or secondarily liable for any of the Liabilities, may grant extensions, renewals or indulgences with respect to the Liabilities, or may apply the proceeds of the Policy hereby assigned or any amount received on account of the Policy by the exercise of any right permitted under this Assignment to the Liabilities in such order as the Assignee shall determine, without resorting to or regard to other security.

J. As applied to the duties and responsibilities of the Insurer, in the event of any conflict between the provisions of this Assignment and the provisions of the Split-Dollar Agreement with respect to the Policy or the Assignee's rights of collateral security therein, the provisions of this Assignment shall prevail. As applied between the Owner and the Assignee, in the event of any such conflict, the provisions of the Split-Dollar Agreement shall prevail.

K. The Owner declares that no proceedings in bankruptcy are pending against the Owner and that the Owner's property is not subject to any assignment for the benefit of creditors of the Owner.

SIGNED this 26th day of December, 2000, effective as of May 15, 2000.

THE MARTIN 1996 CHILDREN'S TRUSTS AGREEMENT

/s/ Rodney O. Martin

TRUSTEE

"OWNER"

This Assignment is hereby accepted and agreed to by the Assignee.

AMERICAN GENERAL CORPORATION

BY: /s/ Gary D. Reddick

Gary D. Reddick
Executive Vice President and
Chief Administrative Officer-
Corporate Operations

"ASSIGNEE"

STATE OF Texas Section)
Section)
HARRIS COUNTY Section)

On the 26th day of October, 2000, before me personally came Rodney O. Martin, to me known to be the individual who executed the Assignment on the preceding pages hereof and acknowledged to me that he or she executed the same.

/S/ Robin Sellers

Notary Public in and for
THIS STATE OF Texas

My Commission Expires:

11/04/02

[NOTARY PUBLIC STAMP]

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EXHIBIT 12

American International Group, Inc. and Subsidiaries

Computation of Ratios of
Earnings to Fixed Charges

(in millions, except ratios)

YEARS ENDED DECEMBER 31,	2002	2001	2000	1999	1998
Income before income taxes, minority interest and cumulative effect of accounting changes	$ 8,142	$ 8,139	$10,023	$ 9,399	$ 7,583
Less - Equity income of less than 50% owned persons	132	15	9	22	98
Add - Dividends from less than 50% owned persons	13	3	3	13	24
	8,023	8,127	10,017	9,390	7,509
Add - Fixed charges	3,797	4,195	3,842	3,152	2,884
Less - Capitalized interest	61	71	69	60	86
Income before income taxes, minority interest, cumulative effect of accounting changes and fixed charges	$11,759	$12,251	$13,790	$12,482	$10,307
Fixed charges:					
Interest costs	$ 3,629	$ 4,038	$ 3,705	$ 3,022	$ 2,769
Rental expense*	168	157	137	130	115
Total fixed charges	$ 3,797	$ 4,195	$ 3,842	$ 3,152	$ 2,884
Ratio of earnings to fixed charges	3.10	2.92	3.59	3.96	3.57

*The proportion deemed representative of the interest factor.

The ratios shown are significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, excluding the effects of the operating results of AIGFP, are 4.46, 4.16, 5.06, 5.51, and 4.76 for 2002, 2001, 2000, 1999 and 1998, respectively. As AIGFP will continue to be a subsidiary, AIG expects that these ratios will continue to be lower than they would be if the fixed charges and operating results of AIGFP were not included therein.

Excluding $900 million with respect to the World Trade Center and related losses and $2.02 billion with respect to acquisition, restructuring and related charges, the ratio of earnings to fixed charges was 3.62 for 2001.

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EXHIBIT 21

Subsidiaries of Registrant

	JURISDICTION OF INCORPORATION OR ORGANIZATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT((2)
American International Group, Inc. (Registrant)(1)	Delaware	(3)
AIG Assurance Canada	Canada	100%(4)
AIG Aviation, Inc.	Georgia	100%
AIG Bulgaria Insurance and Reinsurance Company AD	Bulgaria	100%
AIG Capital Corporation	Delaware	100%
International Lease Finance Corporation	California	64.85%(5)
AIG Capital Management Corp.	Delaware	100%
AIG Claim Services, Inc.	Delaware	100%
AIG Consumer Finance Group, Inc.	Delaware	100%
AIG Bank Polska S.A.	Poland	97.23%
AIG Credit S.A.	Poland	80%
Compania Financiera Argentina S.A.	Argentina	92.7%
AIG Credit Corp.	Delaware	100%
A.I. Credit Corp.	New Hampshire	100%
Imperial Premium Finance, Inc.	California	100%
Imperial Premium Finance, Inc.	Delaware	100%
AIG Equity Sales Corp.	New York	100%
AIG Federal Savings Bank	Delaware	100%
AIG Finance Holdings, Inc.	New York	100%
AIG Finance (Hong Kong) Limited	Hong Kong	100%
AIG Financial Products Corp.	Delaware	100%
AIG Matched Funding Corp.	Delaware	100%
Banque AIG	France	90%(6)
AIG Funding, Inc.	Delaware	100%
AIG Global Investment Group, Inc.	Delaware	100%
AIG Capital Partners, Inc.	Delaware	100%
AIG Global Investment Corp.	New Jersey	100%
John McStay Investment Counsel, L.P.	Texas	83.84%
AIG Global Real Estate Investment Corp.	Delaware	100%
AIG Global Trade & Political Risk Insurance Company	New Jersey	100%
A.I.G. Golden Insurance Ltd.	Israel	50.01%
AIG Life Insurance Company	Delaware	78.9%(7)
AIG Life Insurance Company of Canada	Canada	100%
AIG Life Insurance Company of Puerto Rico	Puerto Rico	100%
AIG Marketing, Inc.	Delaware	100%
AIG Memsa, Inc.	Delaware	100%
Tata AIG General Insurance Company Limited	India	26%
AIG Private Bank Ltd.	Switzerland	100%
AIG Risk Management, Inc.	New York	100%
AIG Star Life Insurance Co., Ltd.	Japan	100%(4)
AIGTI, Inc.	Delaware	100%
AIG Trading Group Inc.	Delaware	100%
AIG International Inc.	Delaware	100%
AIU Insurance Company	New York	52%(8)
AIU North America, Inc.	New York	100%
American General Corporation	Texas	100%
American General Bancassurance Services, Inc.	Illinois	100%
USMRP, Ltd.	Turks & Caicos	100%
AGC Life Insurance Company	Missouri	100%
AIG Life of Bermuda, Ltd.	Bermuda	100%
American General Life and Accident Insurance Company	Tennessee	100%
American General Life Insurance Company	Texas	100%
American General Annuity Service Corporation	Texas	100%

	JURISDICTION OF INCORPORATION OR ORGANIZATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT((2)
American General Enterprise Services, LLC	Delaware	100%
American General Equity Services Corporation	Delaware	100%
American General Life Companies, LLC	Delaware	100%
The Variable Annuity Life Insurance Company	Texas	100%
VALIC Retirement Services Company	Texas	100%
VALIC Trust Company	Texas	100%
American General Property Insurance Company	Tennessee	51.85%(9)
American General Property Insurance Company of Florida	Florida	100%
AIG Annuity Insurance Company	Texas	100%
North Central Life Insurance Company	Minnesota	100%
North Central Caribbean Life, Ltd.	Nevis	100%
The Old Line Life Insurance Company of America	Wisconsin	100%
The United States Life Insurance Company in the City of New York	New York	100%
American General Finance, Inc.	Indiana	100%
AGF Investment Corp.	Indiana	100%
American General Auto Finance, Inc.	Delaware	100%
American General Finance Corporation	Indiana	100%
MorEquity, Inc.	Nevada	100%
Wilmington Finance, Inc.	Delaware	100%
The National Life and Accident Insurance Company	Texas	100%
CommoLoCo, Inc.	Puerto Rico	100%
Merit Life Insurance Co.	Indiana	100%
Yosemite Insurance Company	Indiana	100%
American General Financial Services of Alabama, Inc.	Alabama	100%
HSA Residential Mortgage Services of Texas, Inc.	Delaware	100%
American General Investment Management Corporation	Delaware	100%
American General Realty Investment Corporation	Texas	100%
American General Assurance Company	Illinois	100%
American General Indemnity Company	Nebraska	100%
USLIFE Credit Life Insurance Company of Arizona	Arizona	100%
Knickerbocker Corporation	Texas	100%
American Home Assurance Company	New York	100%
AIG Hawaii Insurance Company, Inc.	Hawaii	100%
American Pacific Insurance Company, Inc.	Hawaii	100%
American International Insurance Company	New York	100%
American International Insurance Company of California, Inc.	California	100%
American International Insurance Company of New Jersey	New Jersey	100%
Minnesota Insurance Company	Minnesota	100%
American International Realty Corp.	Delaware	31.47%(10)
Pine Street Real Estate Holdings Corp.	New Hampshire	31.47%(10)
Transatlantic Holdings, Inc.	Delaware	33.63%(11)
Transatlantic Reinsurance Company	New York	100%
Putnam Reinsurance Company	New York	100%
Trans Re Zurich	Switzerland	100%
American International Group Data Center, Inc.	New Hampshire	100%
American International Insurance Company of Delaware	Delaware	100%
American International Life Assurance Company of New York	New York	77.52%(12)
American International Reinsurance Company, Ltd.	Bermuda	100%
American International Assurance Company, Limited	Hong Kong	100%
American International Assurance Company (Australia) Limited	Australia	100%
American International Assurance Company (Bermuda) Limited	Bermuda	100%
American International Assurance Co. (Vietnam) Limited	Vietnam	100%
Tata AIG Life Insurance Company Limited	India	26%

	JURISDICTION OF INCORPORATION OR ORGANIZATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT((2)
Nan Shan Life Insurance Company, Ltd.	Taiwan	95%
American International Underwriters Corporation	New York	100%
American International Underwriters Overseas, Ltd.	Bermuda	100%
AIG Europe (Ireland) Ltd.	Ireland	100%
AIG Europe (U.K.) Limited	England	100%
AIG Interamericana Compania de Seguros Gerais (Brazil)	Brazil	50%
Universal Insurance Co., Ltd.	Thailand	100%
La Seguridad de Centroamerica, Compania de Seguros, Sociedad Anonima	Guatemala	100%
American International Insurance Company of Puerto Rico	Puerto Rico	100%
La Interamerica Compania de Seguros Generales S.A.	Colombia	100%
American International Underwriters G.m.b.H	Germany	100%
Underwriters Adjustment Company, Inc.	Panama	100%
American Life Insurance Company	Delaware	100%
AIG Life (Bulgaria) Z.D. A.D.	Bulgaria	100%
AIG Participacoes do Brasil, S.A.	Brazil	100%
ALICO, S.A.	France	100%
American Life Insurance Company (Kenya) Limited	Kenya	66.7%
Pharaonic American Life Insurance Company	Egypt	71.6%
American Security Life Insurance Company, Ltd.	Switzerland	100%
American Security Life Insurance Company	Lichtenstein	100%
Birmingham Fire Insurance Company of Pennsylvania	Pennsylvania	100%
China America Insurance Company, Ltd.	Delaware	50%
Commerce and Industry Insurance Company	New York	100%
Commerce and Industry Insurance Company of Canada	Ontario	100%
Delaware American Life Insurance Company	Delaware	100%
Hawaii Insurance Consultants, Ltd.	Hawaii	100%
HSB Group, Inc.	Delaware	100%
The Hartford Steam Boiler Inspection and Insurance Company	Connecticut	100%
Allen Insurance Company Ltd. (Bermuda)	Bermuda	100%
The Hartford Steam Boiler Inspection and Insurance Company of Connecticut	Connecticut	100%
HSB Engineering Insurance Limited	England	100%
The Boiler Inspection and Insurance Company of Canada	Canada	100%
The Insurance Company of the State of Pennsylvania	Pennsylvania	100%
Landmark Insurance Company	California	100%
Mt. Mansfield Company, Inc.	Vermont	100%
National Union Fire Insurance Company of Pittsburgh, Pa.	Pennsylvania	100%
American International Specialty Lines Insurance Company	Alaska	70%(13)
Lexington Insurance Company	Delaware	70%(13)
JI Accident & Fire Insurance Co. Ltd.	Japan	50%
National Union Fire Insurance Company of Louisiana	Louisiana	100%
National Union Fire Insurance Company of Vermont	Vermont	100%
21st Century Insurance Group	California	33.03%(14)
21st Century Insurance Company	California	100%
21st Century Casualty Company	California	100%
21st Century Insurance Company of Arizona	Arizona	100%
Starr Excess Liability Insurance Company, Ltd.	Delaware	100%
Starr Excess Liability Insurance International Limited	Ireland	100%
NHIG Holding Corp.	Delaware	100%
Audubon Insurance Company	Louisiana	100%
Audubon Indemnity Company	Mississippi	100%
Agency Management Corporation	Louisiana	100%
The Gulf Agency, Inc.	Alabama	100%
New Hampshire Insurance Company	Pennsylvania	100%

	JURISDICTION OF INCORPORATION OR ORGANIZATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT((2)
AIG Europe, S.A.	France	(15)
AI Network Corporation	Delaware	100%
American International Pacific Insurance Company	Colorado	100%
American International South Insurance Company	Pennsylvania	100%
Granite State Insurance Company	Pennsylvania	100%
New Hampshire Indemnity Company, Inc.	Pennsylvania	100%
AIG National Insurance Company, Inc.	New York	100%
Illinois National Insurance Co.	Illinois	100%
New Hampshire Insurance Services, Inc.	New Hampshire	100%
Pharaonic Insurance Company, S.A.E.	Egypt	90%
The Philippine American Life and General Insurance Company	Philippines	99%
Pacific Union Assurance Company	California	100%
The Philippine American General Insurance Company, Inc.	Philippines	100%
Philam Insurance Company, Inc.	Philippines	100%
Risk Specialist Companies, Inc.	Delaware	100%
AIG SunAmerica Inc.	Delaware	100%
SunAmerica Investments, Inc.	Georgia	50%(16)
AIG Advisor Group, Inc.	Maryland	100%
Advantage Capital Corporation	New York	100%
FSC Securities Corporation	Delaware	100%
Sentra Securities Corporation	California	100%
Spelman & Co., Inc.	California	100%
SunAmerica Securities, Inc.	Delaware	100%
SunAmerica Life Insurance Company	Arizona	100%
AIG SunAmerica Life Assurance Company	Arizona	100%(17)
First SunAmerica Life Insurance Company	New York	100%
Saamsun Holdings Corp.	Delaware	100%
AIG SunAmerica Capital Services, Inc.	Delaware	100%
SAM Holdings Corporation	California	100%
AIG SunAmerica Asset Management Corp.	Delaware	100%
Sun Royal Holdings Corporation	California	100%
Royal Alliance Associates, Inc.	Delaware	100%
United Guaranty Corporation	North Carolina	36.31%(18)
United Guaranty Insurance Company	North Carolina	100%
United Guaranty Mortgage Insurance Company	North Carolina	100%
United Guaranty Mortgage Insurance Company of North Carolina	North Carolina	100%
United Guaranty Partners Insurance Company	Vermont	80%
United Guaranty Residential Insurance Company of North Carolina	North Carolina	100%
United Guaranty Residential Insurance Company	North Carolina	75%(19)
United Guaranty Commercial Insurance Company of North Carolina	North Carolina	100%
United Guaranty Mortgage Indemnity Company	North Carolina	100%
United Guaranty Credit Insurance Company	North Carolina	100%
United Guaranty Services, Inc.	North Carolina	100%

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(1) All subsidiaries listed are consolidated in the accompanying financial statements. Certain subsidiaries have been omitted from the tabulation. The omitted subsidiaries, when considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.

(2) Percentages include directors' qualifying shares.

(3) The common stock is owned approximately 12.0 percent by SICO, 1.8 percent by Starr and 2.2 percent by The Starr Foundation.

(4) Indirect wholly-owned subsidiary.

(5) Also owned 35.15 percent by National Union.

(6) Also owned 10 percent by AIG Matched Funding Corp.

(7) Also owned 21.1 percent by Commerce & Industry Insurance Company.

(8) Also owned 8 percent by The Insurance Company of the State of Pennsylvania, 32 percent by National Union, and 8 percent by Birmingham.

(9) Also owned 48.15 percent by American General Life and Accident Insurance Company.

(10) Also owned by 11 other AIG subsidiaries.

(11) Also owned 26.08 percent by AIG.

(12) Also owned 22.48 percent by American Home.

(13) Also owned 20 percent by The Insurance Company of the State of Pennsylvania and 10 percent by Birmingham.

(14) Also owned 16.85 percent by American Home, 6.34 percent by Commerce & Industry Insurance Company and 6.34 percent by New Hampshire.

(15) 100 percent to be held with other AIG companies.

(16) Also owned 50 percent by SunAmerica Life Insurance Company.

(17) Formerly known as Anchor National Life Insurance Company.

(18) Also owned 45.88 percent by National Union, 16.95 percent by New Hampshire and 0.86 percent by The Insurance Company of the State of Pennsylvania.

(19) Also owned 25 percent by United Guaranty Residential Insurance Company of North Carolina.

EXHIBIT 23

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 and S-8 (No. 2-38768, No. 2-44043, No. 2-45346, No. 2-51498, No. 2-59317, No. 2-61858, No. 2-62760, No. 2-64336, No. 2-67600, No. 2-72058, No. 2-75874, No. 2-75875, No. 2-78291, No. 2-87005, No. 2-82989, No. 2-90756, No. 2-91945, No. 2-95589, No. 2-97439, No. 33-8495, No. 33-13874, No. 33-18073, No. 33-25291, No. 33-41643, No. 33-48996, No. 33-57250, No. 33-60327, No. 33-60827, No. 33-62821, No. 333-21365, No. 333-48639, No. 333-58095, No. 333-70069, No. 333-74187, No. 333-83813, No. 333-31024, No. 333-31346, No. 333-39976, No. 333-45828, No. 333-50198, No. 333-52938, 333-39976, 333-50198, 333-45828, 333-68640, 333-69546, 333-72876, 333-101640 and 333-101967) of American International Group, Inc. of our report dated February 12, 2003, relating to the consolidated financial statements and financial statement schedules, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

New York, New York
March 31, 2003