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, 1998
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. [_].

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on January 31, 1999 was approximately $119,407,069,000 computed upon the basis of the closing sales price of the Common Stock on that date.

As of January 31, 1999, there were outstanding 1,238,282,249 shares of Common Stock, $2.50 par value, 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 19, 1999 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 primarily engaged in a broad range of insurance and insurance-related activities and financial services in the United States and abroad. AIG's primary activities include both general and life insurance operations. The principal 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"), Transatlantic Holdings, Inc. ("Transatlantic"), American International Underwriters Overseas, Ltd. ("AIUO"), 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. and United Guaranty Residential Insurance Company. On January 1, 1999, AIG acquired SunAmerica Inc., which through its subsidiaries specializes in the retirement savings and asset accumulation business. For information on AIG's business segments, see Note 17 of Notes to Financial Statements.

All per share information herein gives retroactive effect to all stock dividends and stock splits. As of January 31, 1999, beneficial ownership of approximately 13.7 percent, 2.9 percent and 2.0 percent of AIG's Common Stock, $2.50 par value ("Common Stock"), was held by Starr International Company, Inc. ("SICO"), The Starr Foundation and C. V. Starr & Co., Inc. ("Starr"), respectively.

At December 31, 1998, AIG and its subsidiaries had approximately 48,000 employees.

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 operations, equity in income of minority-owned insurance companies and other realized capital losses. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 17 of Notes to Financial Statements.)

(dollars in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996	1995	1994
GENERAL INSURANCE OPERATIONS:					
Gross premiums written	$ 20,684	$ 18,742	$ 18,319	$ 17,895	$ 16,392
Net premiums written	14,586	13,408	12,692	11,893	10,866
Net premiums earned	14,098	12,421	11,855	11,406	10,287
Adjusted underwriting profit (a)	531	490	450	417	201
Net investment income	2,192	1,854	1,691	1,547	1,436
Realized capital gains	205	128	65	68	51
Operating income	2,928	2,472	2,206	2,032	1,688
Identifiable assets	73,226	62,386	58,792	56,223	51,556
Loss ratio	75.6	75.3	75.9	75.9	77.8
Expense ratio	20.8	20.9	20.6	20.7	20.5
Combined ratio	96.4	96.2	96.5	96.6	98.3
LIFE INSURANCE OPERATIONS:					
Premium income	10,247	9,926	8,978	8,038	6,724
Net investment income	3,232	2,896	2,676	2,265	1,748
Realized capital gains (losses)	(35)	21	35	33	87
Operating income	1,780	1,571	1,324	1,091	952
Identifiable assets	64,333	52,104	48,376	43,280	34,497
Insurance in-force at end of year	499,167	436,573	421,983	376,097	333,379
FINANCIAL SERVICES OPERATIONS:					
Commissions, transaction and other fees	3,305	3,272	2,556	2,204	1,784
Operating income	913	701	524	418	405
Identifiable assets	60,113	51,756	43,861	36,834	30,661
EQUITY IN INCOME OF MINORITY-OWNED INSURANCE OPERATIONS	57	114	99	82	56
OTHER REALIZED CAPITAL LOSSES	(5)	(30)	(12)	(29)	(51)
REVENUES (B)	33,296	30,602	27,943	25,614	22,122
TOTAL ASSETS	194,398	163,971	148,431	134,136	114,346

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

(b) Represents the sum of general net premiums earned, life premium income, net investment income, financial services commissions, transaction and other fees, equity in income of minority-owned insurance operations and realized capital gains (losses). In 1997, agency operations were presented as a component of general insurance and for years prior to 1997 agency results have been reclassified to conform to this presentation.

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, 1998. (See also Note 17 of Notes to Financial Statements.)

(dollars in millions)

	TOTAL	UNITED STATES AND CANADA	OTHER COUNTRIES	PERCENT OF TOTAL UNITED STATES AND CANADA	PERCENT OF TOTAL OTHER COUNTRIES
GENERAL INSURANCE OPERATIONS:					
Net premiums earned	$ 14,098	$ 9,471	$ 4,627	67.2%	32.8%
Adjusted underwriting profit	531	9	522	1.6	98.4
Net investment income	2,192	1,754	438	80.0	20.0
Realized capital gains	205	198	7	96.6	3.4
Operating income	2,928	1,961	967	67.0	33.0
Identifiable assets	73,226	57,166	16,060	78.1	21.9
LIFE INSURANCE OPERATIONS:					
Premium income	10,247	738	9,509	7.2	92.8
Net investment income	3,232	920	2,312	28.5	71.5
Realized capital losses	(35)	(1)	(34)	--	--
Operating income	1,780	149	1,631	8.4	91.6
Identifiable assets	64,333	15,772	48,561	24.5	75.5
FINANCIAL SERVICES OPERATIONS:					
Commissions, transaction and other fees	3,305	2,682	623	81.1	18.9
Operating income	913	580	333	63.5	36.5
Identifiable assets	60,113	49,766	10,347	82.8	17.2
EQUITY IN INCOME OF MINORITY-OWNED INSURANCE OPERATIONS	57	44	13	77.0	23.0
OTHER REALIZED CAPITAL GAINS (LOSSES)	(5)	12	(17)	--	--
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	5,529	2,617	2,912	47.3	52.7
REVENUES	33,296	15,818	17,478	47.5	52.5
TOTAL ASSETS	194,398	119,098	75,300	61.3	38.7

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 100 foreign countries.

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

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

AIG's primary domestic division is the Domestic Brokerage Group (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, Transatlantic and certain other insurance company subsidiaries of AIG. The primary casualty/risk management division of DBG provides insurance and risk management programs for large corporate customers. The AIG Risk Finance division designs and implements creative risk financing alternatives using the insurance and financial services capabilities of AIG. Also included are the operations of New Hampshire and its subsidiaries, which focus specifically on providing AIG products and services through brokers to middle market companies, and regional insurance companies which service the commercial middle market.

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, workers' compensation and excess and umbrella coverages, DBG offers many specialized forms of insurance such as 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.

AIG engages in mass marketing of personal lines coverages, primarily private passenger auto, through American International Insurance Company and 20th 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 $17 billion of mortgage guarantee risk in-force at December 31, 1998.

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. Transatlantic's foreign operations are included in this group.

During 1998, DBG and the Foreign General insurance group accounted for 54.9 percent and 32.9 percent, respectively, of AIG's net premiums written.

AIG's general insurance company subsidiaries worldwide operate primarily by underwriting and accepting any size risk 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
1998		
Gross premiums	$ 20,684	$ 20,092
Ceded premiums	(6,098)	(5,994)
Net premiums	$ 14,586	$ 14,098
1997		
Gross premiums	$ 18,742	$ 17,566
Ceded premiums	(5,334)	(5,145)
Net premiums	$ 13,408	$ 12,421
1996		
Gross premiums	$ 18,319	$ 17,580
Ceded premiums	(5,627)	(5,725)
Net premiums	$ 12,692	$ 11,855

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 well diversified both in terms of lines of business and geographic locations. Of the general insurance lines of business, workers' compensation was approximately 8 percent of AIG's net premiums written. This line is well diversified geographically.

The majority of AIG's 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*
1998	$14,586	$14,098	75.6	20.8	96.4	3.6	103.7
1997	13,408	12,421	75.3	20.9	96.2	3.8	101.5
1996	12,692	11,855	75.9	20.6	96.5	3.5	106.3
1995	11,893	11,406	75.9	20.7	96.6	3.4	106.7
1994	10,866	10,287	77.8	20.5	98.3	1.7	108.9

* Source: Best's Aggregates & Averages (Stock insurance companies, after dividends to policyholders) and the ratio for 1998 reflects estimated results provided by Conning & Company.

During 1998, of the direct general insurance premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded), 12.9 percent and 10.4 percent were written in California and New York, 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, 1998. (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 is exclusive of applicable reinsurance and represents the accumulation of estimates for reported losses ("case basis reserves") and provisions for losses incurred but not reported ("IBNR"). Losses and loss expenses are charged to income as incurred. AIG discounts certain of its loss reserves which are related to certain workers' compensation claims.

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(s) of Notes to Financial Statements.)

Management continually 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 currently 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", which follows, presents the development of net losses and loss expense reserves for calendar years 1988 through 1998. 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 $15.84 billion as of December 31, 1991, by the end of 1998 (seven years later) $14.19 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 $15.84 billion was reestimated to be $17.36 billion at December 31, 1998. This increase from the original estimate would generally be a combination of a number of factors, including reserves being settled for larger 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 redundancy of $281 million at December 31, 1998 related to December 31, 1997 net losses and loss expense reserves of $21.17 billion represents the cumulative amount by which reserves for 1997 and prior years have developed redundantly during 1998. The reserve for net losses and loss expenses with respect to Transatlantic and 20th Century are only included in the consolidated net losses and loss expenses as of December 31, 1998. No reserve development is presented herein as these operations were not majority owned subsidiaries prior to the third quarter of 1998.

Over the past several years, AIG has significantly strengthened its net loss and loss expense reserves with respect to asbestos and environmental losses. This strengthening is the primary cause of the adverse development reflected in certain calendar years in the net loss and loss expense reserves shown in the following table.

ANALYSIS OF CONSOLIDATED NET LOSSES AND
LOSS EXPENSE RESERVE DEVELOPMENT

(in millions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Reserve for Net Losses and Loss											
Expenses, December 31,	$11,086	$12,958	$14,699	$15,840	$16,757	$17,557	$18,419	$19,693	$20,407	$21,171	$24,619
Paid (Cumulative) as of:											
One Year Later	3,267	3,940	4,315	4,748	4,883	5,146	4,775	5,281	5,616	5,716	
Two Years Later	5,452	6,477	7,350	8,015	8,289	8,242	8,073	8,726	9,081		
Three Years Later	6,905	8,351	9,561	10,436	10,433	10,404	10,333	11,024			
Four Years Later	7,966	9,721	11,224	11,815	11,718	12,095	12,107				
Five Years Later	8,792	10,765	12,112	12,611	12,931	13,378					
Six Years Later	9,450	11,285	12,615	13,472	13,894						
Seven Years Later	9,737	11,517	13,235	14,193							
Eight Years Later	9,813	11,953	13,804								
Nine Years Later	10,140	12,402									
Ten Years Later	10,525										
Net Liability Reestimated											
as of:											
End of Year	11,086	12,958	14,699	15,840	16,757	17,557	18,419	19,693	20,407	21,171	24,619
One Year Later	10,924	12,845	14,596	15,828	16,807	17,434	18,139	19,413	20,009	20,890	
Two Years Later	10,857	12,844	14,595	15,903	16,603	17,479	18,269	19,330	19,999		
Three Years Later	10,812	12,809	14,724	15,990	16,778	17,782	18,344	19,327			
Four Years Later	10,775	12,896	14,965	16,254	17,182	18,090	18,344				
Five Years Later	10,805	13,065	15,361	16,712	17,600	18,300					
Six Years Later	10,954	13,426	15,845	17,095	17,844						
Seven Years Later	11,302	13,931	16,161	17,356							
Eight Years Later	11,799	14,180	16,385								
Nine Years Later	12,025	14,457									
Ten Years Later	12,304										
Redundancy/(Deficiency)	(1,218)	(1,499)	(1,686)	(1,516)	(1,087)	(743)	75	366	408	281	

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. Thus, AIG's loss and loss expense reserves excluding asbestos and environmental claims are developing adequately. (See also management's Discussion and Analysis of Financial condition and Results of Operations.)

ANALYSIS OF CONSOLIDATED NET LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT EXCLUDING ASBESTOS AND ENVIRONMENTAL NET LOSSES AND LOSS EXPENSE RESERVE DEVELOPMENT
(in millions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Reserve for net losses and loss Expenses, Excluding Asbestos and Environmental Losses and Loss Expenses, December 31,	$11,006	$12,838	$14,539	$15,639	$16,503	$17,249	$18,089	$19,186	$19,664	$20,384	$23,754
Paid (Cumulative) as of:											
One Year Later	3,267	3,940	4,260	4,691	4,766	5,061	4,700	5,174	5,507	5,576	
Two Years Later	5,452	6,422	7,237	7,842	8,088	8,082	7,891	8,515	8,832		
Three Years Later	6,851	8,240	9,333	10,178	10,157	10,137	10,048	10,673			
Four Years Later	7,857	9,496	10,912	11,483	11,337	11,726	11,683				
Five Years Later	8,569	10,456	11,727	12,175	12,448	12,871					
Six Years Later	9,145	10,904	12,126	12,935	13,274						
Seven Years Later	9,362	11,034	12,646	13,519							
Eight Years Later	9,339	11,370	13,079								
Nine Years Later	9,570	11,684									
Ten Years Later	9,824										
Net Liability Reestimated as of:											
End of Year	11,006	12,838	14,539	15,639	16,503	17,249	18,089	19,186	19,664	20,384	23,754
One Year Later	10,804	12,684	14,341	15,518	16,382	17,019	17,556	18,568	19,118	19,903	
Two Years Later	10,697	12,591	14,232	15,422	16,073	16,813	17,355	18,347	18,910		
Three Years Later	10,562	12,449	14,190	15,403	15,997	16,790	17,293	18,141			
Four Years Later	10,420	12,368	14,327	15,417	16,081	16,960	17,090				
Five Years Later	10,282	12,431	14,472	15,562	16,362	16,969					
Six Years Later	10,326	12,544	14,648	15,808	16,404						
Seven Years Later	10,430	12,748	14,828	15,869							
Eight Years Later	10,635	12,861	14,854								
Nine Years Later	10,728	12,941									
Ten Years Later	10,814										
Redundancy/(Deficiency):	192	(103)	(315)	(230)	99	280	999	1,045	754	481	

RECONCILIATION OF NET RESERVE FOR LOSSES AND LOSS EXPENSES
(in millions)

	1998	1997	1996
Net reserve for losses and loss expenses at beginning of year	$ 21,171	$ 20,407	$ 19,693
Acquisitions(a)	2,896	--	--
Losses and loss expenses incurred:			
Current year	10,938	9,732	9,273
Prior years(b)	(281)	(376)	(276)
	10,657	9,356	8,997
Losses and loss expenses paid:			
Current year	4,389	2,976	3,002
Prior years	5,716	5,616	5,281
	10,105	8,592	8,283
Net reserve for losses and loss expenses at end of year	$ 24,619	$ 21,171	$ 20,407

(a) Acquisitions include the opening balances with respect to Transatlantic and 20th Century.

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

Approximately 45 percent of the net losses and loss expense reserves are paid out within two years of the date incurred. The remaining net losses and loss expense reserves, particularly those associated with the casualty lines of business, may extend to 20 years or more.

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, 1998, 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, 1998 relate primarily to estimates for unrecoverable reinsurance and additional reserves relating to 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.

The "Analysis of Consolidated Gross Losses and Loss Expense Reserve Development", which follows, presents the development of gross losses and loss expense reserves for calendar years 1992 through 1998. As with the net losses and loss expense reserve development, the deficiencies of $1.45 billion and $835 million for 1992 and 1993, and redundancies of $927 million, $1.29 billion, $1.71 billion and $1.06 billion for 1994, 1995, 1996 and 1997, respectively, are relatively insignificant both in terms of an aggregate amount and as a percentage of the initial reserve balance.

ANALYSIS OF CONSOLIDATED GROSS LOSSES AND
LOSS EXPENSE RESERVE DEVELOPMENT
(in millions)

	1992	1993	1994	1995	1996	1997	1998
Gross losses and loss expenses, December 31,	$28,157	$30,046	$31,435	$33,047	$33,430	$33,400	$38,310
Paid (cumulative) as of:							
One Year Later	7,281	8,807	7,640	8,392	9,199	9,185	
Two Years Later	13,006	13,279	13,036	15,496	15,043		
Three Years Later	16,432	17,311	17,540	18,837			
Four Years Later	18,550	20,803	20,653				
Five Years Later	21,322	22,895					
Six Years Later	22,807						
Gross Liability Reestimated as of:							
End of Year	28,157	30,046	31,435	33,047	33,430	33,400	38,310
One Year Later	28,253	29,866	30,759	32,372	32,777	32,337	
Two Years Later	27,825	29,537	30,960	32,398	31,719		
Three Years Later	27,727	30,362	30,825	31,759			
Four Years Later	28,625	31,020	30,508				
Five Years Later	29,701	30,881					
Six Years Later	29,605						
Redundancy/(Deficiency)	(1,448)	(835)	927	1,288	1,711	1,063	

LIFE INSURANCE OPERATIONS

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

Life insurance operations in foreign countries comprised 92.8 percent of life premium income and 91.6 percent of operating income in 1998. AIG operates overseas principally through American Life Insurance Company (ALICO), American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA) and Nan Shan Life Insurance Company, Ltd. (Nan Shan). ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. These operations comprised 90.4 percent of AIG's consolidated life premium income. (See also Note 17 of Notes to Financial Statements.)

In the United States, AIG has four domestic life subsidiaries: American International Life Assurance Company of New York, AIG Life Insurance Company, Delaware American Life Insurance Company, and Pacific Union Assurance Company. These companies utilize multiple distribution channels including brokerage and career and general agents to offer primarily life insurance, financial and investment products and specialty forms of accident and health coverage for individuals and groups, including employee benefit plans. The domestic life business comprised 7.2 percent of total life premium income in 1998.

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, 1998. (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 Switzerland, Puerto Rico, and conducts life insurance business through AIUO subsidiary companies in certain countries in Central and South America.

The foreign life companies have approximately 120,000 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 table summarizes the life insurance operating results for the year ended December 31, 1998. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

(dollars in millions)

	PREMIUM INCOME	NET INVESTMENT INCOME	OPERATING INCOME(A)	INSURANCE IN-FORCE	AVERAGE TERMINATION RATE LAPSE	AVERAGE TERMINATION RATE OTHER
Individual:						
Life	$ 7,391	$2,260	$1,244	$376,699(b)	6.9%	1.4%
Annuity	238	510	88	(c)		
Accident and health	1,297	95	361	(c)		
Group:						
Life	513	32	55	122,468	10.6%	5.1%
Pension	229	316	52	(c)		
Accident and health	579	27	23	(c)		
Realized capital gains	--	--	(35)	(c)		
Consolidation adjustments	--	(8)	(8)	(c)		
Total	$10,247	$3,232	$1,780	$499,167		

(a) Including income related to investment type products.
(b) Including $266.8 billion of whole life insurance and endowments.
(c) Not applicable.

AIG's individual life insurance and group life insurance portfolio accounted for 71 percent, 69 percent and 68 percent of AIG's consolidated life insurance operating income before realized capital gains or losses for the years ended December 31, 1998, 1997 and 1996, respectively. For each of those years, 92 percent of consolidated life operating income before realized capital gains or losses was derived from foreign operations.

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, 8 and 17 of Notes to Financial Statements.)

The following table is a summary of the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at December 31, 1998:

(dollars in millions)

	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	PERCENT DISTRIBUTION FOREIGN
Fixed maturities:						
Available for sale, at market value(a)	$15,939	$33,163	$49,102	56.1%	40.3%	59.7%
Held to maturity, at amortized cost	12,658	--	12,658	14.4	100.0	--
Equity securities, at market value(b)	3,923	1,717	5,640	6.4	51.1	48.9
Mortgage loans on real estate, policy and collateral loans	70	6,400	6,470	7.4	31.5	68.5
Short-term investments, including time deposits, and cash	873	4,039	4,912	5.6	21.6	78.4
Real estate	393	1,070	1,463	1.7	15.2	84.8
Investment income due and accrued	568	900	1,468	1.7	41.4	58.6
Other invested assets	4,459	1,426	5,885	6.7	80.4	19.6
Total	$38,883	$48,715	$87,598	100.0%	50.2%	49.8%

(a) Includes $1,005 of bonds trading securities, at market value.
(b) Includes $301 of 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)

YEARS ENDED DECEMBER 31,	ANNUAL AVERAGE CASH AND INVESTED ASSETS: CASH (INCLUDING SHORT-TERM INVESTMENTS)	INVESTED ASSETS(A)	TOTAL	NET INVESTMENT INCOME(B)	RATE OF RETURN ON INVESTED ASSETS		REALIZED CAPITAL GAINS
1998	$ 745	$34,619	$35,364	$2,192	6.2% (c)	6.3%(d)	$205
1997	611	29,704	30,315	1,854	6.1(c)	6.2(d)	128
1996	630	27,048	27,678	1,691	6.1(c)	6.3(d)	65
1995	825	24,417	25,242	1,547	6.1(c)	6.3(d)	68
1994	1,442	21,837	23,279	1,436	6.2(c)	6.6(d)	51

(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.
(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)

YEARS ENDED DECEMBER 31,	ANNUAL AVERAGE CASH AND INVESTED ASSETS: CASH (INCLUDING SHORT-TERM INVESTMENTS)	INVESTED ASSETS(A)	TOTAL	NET INVESTMENT INCOME((B)	RATE OF RETURN ON INVESTED ASSETS		REALIZED CAPITAL GAINS (LOSSES)
1998	$3,224	$41,657	$44,881	$3,232	7.2%(c)	7.7%(d)	$(35)
1997	1,706	38,063	39,769	2,896	7.3(c)	7.6(d)	21
1996	1,117	35,563	36,680	2,676	7.3(c)	7.5(d)	35
1995	1,222	29,557	30,779	2,265	7.4(c)	7.7(d)	33
1994	2,046	22,318	24,364	1,748	7.2(c)	7.8(d)	87

(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.
(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 asset management, premium financing, banking services and consumer finance services.

International Lease Finance Corporation (ILFC) engages primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. (See also Note 17 of Notes to Financial Statements.)

AIG Financial Products Corp. and its subsidiaries (AIGFP)structure financial transactions, including long-dated interest rate and currency swaps and structures borrowing through notes, bonds and guaranteed investment agreements. (See also Note 17 of Notes to Financial Statements.)

AIG Trading Group Inc. and its subsidiaries (AIGTG) engage in various commodities trading, foreign exchange trading, interest rate swaps and market making activities. (See also Note 17 of Notes to Financial Statements.)

Together these three operations comprise 88.5 percent of the commissions, transactions and other fees of AIG's consolidated financial services operations.

Other AIG operations which contribute to financial services income include primarily A.I. Credit Corp. (AICCO), AIG Private Bank Ltd. and AIG Global Investment Group, Inc. AICCO's business is principally in premium financing. AIG Private Bank Ltd. operates as a Swiss bank. AIG Global Investment Group, Inc. operations include the management of the investment portfolios of various AIG subsidiaries, as well as third-party assets, and is responsible for product design and origination, marketing and distribution of third-party asset management products, including retail mutual funds, direct investment, and real estate investment, management and development. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 9 and 11 of Notes to Financial Statements.)

The following table is a summary of the composition of AIG's financial services invested assets and liabilities at December 31, 1998. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of Notes to Financial Statements.)

(in millions)	
Financial services invested assets:	
Flight equipment primarily under operating leases, net of accumulated depreciation	$16,330
Securities available for sale, at market value	10,674
Trading securities, at market value	5,668
Spot commodities, at market value	476
Unrealized gain on interest rate and currency swaps, options and forward transactions	9,881
Trading assets	6,229
Securities purchased under agreements to resell, at contract value	4,838
Other, including short-term investments	2,523
Total financial services invested assets	$56,619
Financial services liabilities:	
Borrowings under obligations of guaranteed investment agreements	$ 9,188
Securities sold under agreements to repurchase, at contract value	4,473
Trading liabilities	4,664
Securities and spot commodities sold but not yet purchased, at market value	4,457
Unrealized loss on interest rate and currency swaps, options and forward transactions	7,055
Deposits due to banks and other depositors	1,242
Commercial paper	3,204
Notes, bonds and loans payable	15,249
Total financial services liabilities	$49,532

The following table is a summary of the revenues and operating income of AIG's principal financial services operations for the year ended December 31, 1998. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of Notes to Financial Statements.)

(in millions)	Revenues	Operating Income
ILFC	$2,002	$ 496
AIGFP*	550	323
AIGTG*	374	123

* Represents net trading revenues.

OTHER OPERATIONS

Small AIG subsidiaries provide insurance-related services such as adjusting claims and marketing specialized products. AIG has several other relatively minor subsidiaries which carry on various businesses. 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

On January 29, 1998, AIG purchased the 76.1 percent interest in SELIC Holdings, Ltd. which it previously did not own. AIG holds a 24.4 percent interest in IPC Holdings, Ltd., a reinsurance holding company and a 19.9 percent interest in Richmond Insurance Company, Ltd., a reinsurer. (See also Note 1(n) of Notes to Financial Statements.)

LOCATIONS OF CERTAIN ASSETS

As of December 31, 1998, approximately 39 percent of the consolidated assets of AIG were located in foreign countries (other than Canada), including $1.02 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, 2 and 17 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 10 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 by considerable margins as of December 31, 1998.

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.

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 in 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 some 1,700 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, particularly AIGTG and AIGFP, operate in a highly competitive environment, both domestically and overseas. Principal sources of competition are banks, investment banks and other non-bank financial institutions.

ITEM 2.PROPERTIES

AIG and its subsidiaries operate from approximately 350 offices in the United States, 5 offices in Canada and numerous offices in other foreign countries. The offices in Springfield, Illinois; Houston, Texas; Atlanta, Georgia; Baton Rouge, Louisiana; Wilmington, Delaware; Hato Rey, Puerto Rico; San Diego, California; Greensboro, North Carolina; Livingston, New Jersey; 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.)

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

At a Special Meeting of Shareholders held on November 18, 1998, the Shareholders approved, by a vote of 892,871,603 shares to 1,009,655 shares, with

3,105,028 shares abstaining, a proposal to approve and adopt the Agreement and Plan of Merger between AIG and SunAmerica Inc. and the merger contemplated thereby.

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.

NAME	TITLE	AGE	SERVED AS DIRECTOR OR OFFICER SINCE
M. Bernard Aidinoff*	Director	70	1984
Eli Broad	Director	65	1999
Pei-yuan Chia	Director	60	1996
Marshall A. Cohen	Director	63	1992
Barber B. Conable, Jr.	Director	76	1991
Martin S. Feldstein	Director	59	1987
Ellen V. Futter	Director	49	1999
Leslie L. Gonda	Director	79	1990
Evan G. Greenberg*	Director, President and Chief Operating Officer	44	1995
M. R. Greenberg*	Director, Chairman and Chief Executive Officer	73	1967
Carla A. Hills	Director	65	1993
Frank J. Hoenemeyer*	Director	79	1985
Edward E. Matthews*	Director and Vice Chairman-Investments and Financial Services	67	1973
Dean P. Phypers	Director	70	1979
Howard I. Smith	Director, Executive Vice President, Chief Financial Officer and Comptroller	54	1984
Thomas R. Tizzio*	Director and Senior Vice Chairman-General Insurance	61	1982
Edmund S. W. Tse	Director and Vice Chairman-Life Insurance	61	1991
Jay S. Wintrob	Director	42	1999
Frank G. Wisner	Director and Vice Chairman-External Affairs	60	1997
Edwin E. Manton	Senior Advisor	90	1967
John J. Roberts	Senior Advisor	76	1967
Ernest E. Stempel	Senior Advisor	82	1967
Kristian P. Moor	Executive Vice President-Domestic General Insurance	39	1998
R. Kendall Nottingham	Executive Vice President-Life Insurance	60	1998
Robert M. Sandler	Executive Vice President, Senior Casualty Actuary and Senior Claims Officer	56	1980
Martin J. Sullivan	Executive Vice President-Foreign General Insurance	44	1997
William N. Dooley	Senior Vice President-Financial Services	45	1992
Lawrence W. English	Senior Vice President-Administration	57	1985
Axel I. Freudmann	Senior Vice President-Human Resources	52	1986
Win J. Neuger	Senior Vice President and Chief Investment Officer	49	1995
Ernest T. Patrikis	Senior Vice President and General Counsel	55	1998
Robert E. Lewis	Vice President and Chief Credit Officer	48	1993
Charles M. Lucas	Vice President and Director of Market Risk Management	60	1996
Frank Petralito II	Vice President and Director of Taxes	62	1978
Kathleen E. Shannon	Vice President and Secretary	49	1986
John T. Wooster, Jr.	Vice President-Communications	59	1989
Carol A. McFate	Treasurer	46	1998

* Member of Executive Committee.

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, or with Starr. Evan G. Greenberg is the son of M.R. Greenberg. 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. Mr. Neuger was Managing Director, Global Investment Management-Equity at Bankers Trust Company prior to joining AIG in February, 1995. 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. Mr. Lucas was Senior Vice President at Republic National Bank of New York prior to joining AIG in 1996. Ms. McFate was Assistant Treasurer of AIG and Director of Financial Analysis of AIG prior to being elected Treasurer of AIG in 1998 and was Senior Vice President-Investment Management at Prudential Insurance Company prior to joining AIG in 1994. Mr. Wisner served as a career foreign service officer with the United States Department of State from 1961 through July, 1997, with his last position being Ambassador to India.

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, as reported on the New York Stock Exchange Composite Tape, for each quarter of 1998 and 1997, as adjusted for the common stock split in the form of a 50 percent common stock dividend paid July 31, 1998. All prices are as reported by the National Quotation Bureau, Incorporated.

	1998		1997	
	HIGH	LOW	HIGH	LOW
First Quarter	86 1/4	67	56 7/8	47 13/16
Second Quarter	97 5/16	81 13/16	66 13/16	50 11/16
Third Quarter	101 15/16	76 1/4	71	62 15/16
Fourth Quarter	100 7/8	66 9/16	74 5/8	65 5/16

(b) In 1998, AIG paid a quarterly dividend of 5.0 cents in March and June and 5.6 cents in September and December for a total cash payment of 21.2 cents per share of common stock. In 1997, AIG paid a quarterly dividend of 4.5 cents in March and June and 5.0 cents in September and December for a total cash payment of 19 cents per share of common stock. These amounts reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 31, 1998. 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 10(b) 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, 1999, based upon the number of record holders, was 24,200.

ITEM 6.SELECTED FINANCIAL DATA
AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

The following Selected Consolidated Financial Data is presented in accordance with generally accepted accounting principles. This data should be read in conjunction with the financial statements and accompanying notes included elsewhere herein.

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	1998	1997	1996	1995	1994
Revenues (a)	$ 33,296	$ 30,602	$ 27,943	$ 25,614	$ 22,122
General insurance:					
Net premiums written	14,586	13,408	12,692	11,893	10,866
Net premiums earned	14,098	12,421	11,855	11,406	10,287
Adjusted underwriting profit	531	490	450	417	201
Net investment income	2,192	1,854	1,691	1,547	1,436
Realized capital gains	205	128	65	68	51
Operating income	2,928	2,472	2,206	2,032	1,688
Life insurance:					
Premium income	10,247	9,926	8,978	8,038	6,724
Net investment income	3,232	2,896	2,676	2,265	1,748
Realized capital gains (losses)	(35)	21	35	33	87
Operating income	1,780	1,571	1,324	1,091	952
Financial services operating income	913	701	524	418	405
Equity in income of minority-owned insurance operations	57	114	99	82	56
Other realized capital losses	(5)	(30)	(12)	(29)	(51)
Income before income taxes and minority interest	5,529	4,731	4,056	3,502	2,982
Income taxes	1,594	1,367	1,116	956	776
Income before minority interest	3,935	3,364	2,940	2,546	2,206
Minority interest	(169)	(32)	(43)	(36)	(30)
Net income	3,766	3,332	2,897	2,510	2,176
Earnings per common share (b):					
Basic	3.59	3.16	2.73	2.35	2.04
Diluted	3.57	3.15	2.72	2.35	2.03
Cash dividends per common share	.21	.19	.17	.14	.13
Total assets	194,398	163,971	148,431	134,136	114,346
Long-term debt (c)	21,504	17,814	17,506	14,453	12,614
Capital funds (shareholders' equity)	27,131	24,001	22,044	19,827	16,422

(a) Represents the sum of general net premiums earned, life premium income, net investment income, financial services commissions, transaction and other fees, equity in income of minority-owned insurance operations and realized capital gains (losses). In 1997, agency operations were presented as a component of general insurance and for years prior to 1997 agency results have been reclassified to conform to this presentation. (See also tables under Item 1, "Business".)

(b) Per share amounts for all periods presented reflect the adoption of the Statement of Financial Accounting Standards No. 128 "Earnings per Share."

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

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

American International Group, Inc. and Subsidiaries

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

OPERATIONAL REVIEW

GENERAL INSURANCE OPERATIONS

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

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

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

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

AIG's Foreign General insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance entities. The Foreign General insurance group also includes business written by AIG's foreign-based insurance subsidiaries for their own accounts. The Foreign General group uses various marketing methods to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in over 70 countries in Asia, the Pacific Rim, Europe, Africa, Middle East and Latin America. Transatlantic's foreign operations are included in this group. (See also Note 17 of Notes to Financial Statements.)

General insurance operations for the twelve month periods ending December 31, 1998, 1997 and 1996 were as follows:

(in millions)

	1998	1997	1996
Net premiums written:			
Domestic	$ 9,787	$ 9,038	$ 8,367
Foreign	4,799	4,370	4,325
Total	$ 14,586	$ 13,408	$ 12,692
Net premiums earned:			
Domestic	$ 9,471	$ 8,352	$ 7,822
Foreign	4,627	4,069	4,033
Total	$ 14,098	$ 12,421	$ 11,855
Adjusted underwriting profit (loss):			
Domestic	$ 9	$ (7)	$ 52
Foreign	522	497	398
Total	$ 531	$ 490	$ 450
Net investment income:			
Domestic	$ 1,754	$ 1,485	$ 1,352
Foreign	438	369	339
Total	$ 2,192	$ 1,854	$ 1,691
Operating income before realized capital gains:			
Domestic	$ 1,763	$ 1,478	$ 1,404
Foreign	960	866	737
Total	2,723	2,344	2,141
Realized capital gains	205	128	65
Operating income	$ 2,928	$ 2,472	$ 2,206

In AIG's general insurance operations, 1998 net premiums written and net premiums earned increased 8.8 percent and 13.5 percent, respectively, from those of 1997. In 1997, net premiums written increased 5.6 percent and net premiums earned increased 4.8 percent when compared to 1996.

The commercial insurance market remains highly competitive and excessively capitalized. DBG has been able to sustain some growth in various specialty markets. However, DBG has also non-renewed certain of its policies where underwriting and pricing standards could not be achieved.

Domestic growth was primarily achieved through the growth in the personal auto insurance segment of Personal Lines.

Foreign general insurance operations produced 32.9 percent of the general insurance net premiums written in 1998, 32.6 percent in 1997 and 34.1 percent in 1996.

In comparing the foreign exchange rates used to translate the results of the Foreign General insurance group's operations during 1998 to those foreign exchange rates used to translate the Foreign General insurance group's results during 1997, the U.S. dollar strengthened in value in relation to most major foreign currencies in which the Foreign General insurance group conducts its business. Accordingly, if the Foreign General insurance group's net premiums written were translated into U.S. dollars utilizing those exchange rates which prevailed in 1997, thus mitigating the effects of the U.S. dollar's general strengthening, the Foreign General insurance group's premium

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

growth would have been 17.5 percent. This growth equates to growth in original currency. The Far East operations, particularly personal lines, were the primary source for such growth. (See also the discussion under "Capital Resources" herein.)

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.

The statutory general insurance ratios were as follows:

	1998	1997	1996
Domestic:			
Loss Ratio	84.25	84.44	85.21
Expense Ratio	15.87	15.90	14.79
Combined Ratio	100.12	100.34	100.00
Foreign:			
Loss Ratio	57.87	56.61	57.82
Expense Ratio	30.76	31.16	31.77
Combined Ratio	88.63	87.77	89.59
Consolidated:			
Loss Ratio	75.59	75.33	75.89
Expense Ratio	20.77	20.87	20.58
Combined Ratio	96.36	96.20	96.47

Adjusted underwriting profit (operating income less net investment income and realized capital gains) represents statutory underwriting profit or loss adjusted primarily for changes in deferred policy acquisition costs. The adjusted underwriting profits were $531 million in 1998, $490 million in 1997 and $450 million in 1996. (See also Notes 4 and 17 of Notes to Financial Statements.)

AIG's results reflect the net impact of incurred losses from catastrophes approximating $110 million in 1998, $16 million in 1997 and $78 million in 1996. AIG's gross incurred losses from catastrophes approximated $625 million in 1998, $22 million in 1997 and $240 million in 1996. If these catastrophes were excluded from the losses incurred in each period, the pro forma consolidated statutory general insurance ratios would be as follows:

	1998	1997	1996
Loss Ratio	74.81	75.20	75.23
Expense Ratio	20.77	20.87	20.58
Combined Ratio	95.58	96.07	95.81

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

General insurance net investment income in 1998 increased 18.3 percent when compared to 1997. In 1997, net investment income increased 9.6 percent over 1996. The growth in net investment income in each of the three years 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 gains were $205 million in 1998, $128 million in 1997 and $65 million in 1996. These realized gains resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in 1998 increased 18.4 percent when compared to 1997. The 1997 results reflect an increase of 12.1 percent from 1996. The contribution of general insurance operating income to income before income taxes and minority interest was 53.0 percent in 1998 compared to 52.3

percent in 1997 and 54.4 percent in 1996.

AIG is a major purchaser of reinsurance for its general insurance operations. AIG is cognizant of the need to exercise good judgment in the selection and approval of both domestic and foreign companies participating in its reinsurance programs. AIG insures risks in over 100 countries and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. These reinsurance arrangements do not relieve AIG from its direct obligations to its insureds.

AIG's general reinsurance assets amounted to $17.61 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at December 31, 1998 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 1998, approximately 50 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 50 percent of the general reinsurance assets were from authorized reinsurers and over 93 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness.

AIG maintains an allowance for estimated unrecoverable reinsurance and has been largely successful in its previous recovery efforts. At December 31, 1998, AIG had allowances for unrecoverable reinsurance approximating $105 million. At that date, and prior to this allowance, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

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

At December 31, 1998, the consolidated general reinsurance assets of $17.61 billion include reinsurance recoverables for paid losses and loss expenses of $1.72 billion and $13.69 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments therefrom are reflected in income currently. It is AIG's belief that the ceded reserves at December 31, 1998 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

At December 31, 1998, general insurance reserves for losses and loss expenses (loss reserves) amounted to $38.31 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and minor amounts of discounting related to certain workers' compensation claims. At December 31, 1998, general insurance net loss reserves increased $3.45 billion to $24.62 billion. These loss reserves represent loss reserves reduced by reinsurance recoverable, 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, 1998. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on such future results of operations.

In a very broad sense, the general loss reserves can be categorized into two distinct groups: one group being long tail casualty lines of business; the other being short tail lines of business consisting principally of property lines and including certain classes of casualty lines.

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

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

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

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

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

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

environmental claims emanate from policies written in 1984 and prior years. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites environmental impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein.

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

In the interim, AIG and other industry members have and will continue to litigate the 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 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, 1998 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at December 31, 1998, 1997 and 1996 follows. The 1998 reserve activity includes Transatlantic.

(in millions)

	1998		1997		1996	
	GROSS	NET	GROSS	NET	GROSS	NET
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 842	$ 195	$ 876	$ 172	$ 744	$ 127
Losses and loss expenses incurred	375	111	238	68	393	103
Losses and loss expenses paid	(253)	(47)	(272)	(45)	(261)	(58)
Reserve for losses and loss expenses at end of year	$ 964	$ 259	$ 842	$ 195	$ 876	$ 172
Environmental:						
Reserve for losses and loss expenses at beginning of year	$1,467	$ 593	$1,427	$ 571	$1,198	$ 380
Losses and loss expenses incurred	285	106	223	85	379	240
Losses and loss expenses paid	(216)	(93)	(183)	(63)	(150)	(49)
Reserve for losses and loss expenses at end of year	$1,536	$ 606	$1,467	$ 593	$1,427	$ 571
Combined:						
Reserve for losses and loss expenses at beginning of year	$2,309	$ 788	$2,303	$ 743	$1,942	$ 507
Losses and loss expenses incurred	660	217	461	153	772	343
Losses and loss expenses paid	(469)	(140)	(455)	(108)	(411)	(107)
Reserve for losses and loss expenses at end of year	$2,500	$ 865	$2,309	$ 788	$2,303	$ 743

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at December 31, 1998, 1997 and 1996 were estimated as follows:

(in millions)

	1998		1997		1996	
	GROSS	NET	GROSS	NET	GROSS	NET
Combined	$979	$359	$1,004	$394	$1,070	$437

A summary of asbestos and environmental claims count activity for the years ended December 31, 1998, 1997 and 1996 was as follows:

	1998			1997			1996		
	ASBESTOS	ENVIRONMENTAL	COMBINED	ASBESTOS	ENVIRONMENTAL	COMBINED	ASBESTOS	ENVIRONMENTAL	COMBINED
Claims at beginning of year	6,150	17,422	23,572	5,668	17,395	23,063	5,244	17,858	23,102
Claims during year:									
Opened	887	3,502	4,389	1,073	3,624	4,697	1,083	3,836	4,919
Settled	(81)	(677)	(758)	(169)	(644)	(813)	(117)	(466)	(583)
Dismissed or otherwise resolved	(568)	(3,687)	(4,255)	(422)	(2,953)	(3,375)	(542)	(3,833)	(4,375)
Claims at end of year	6,388	16,560	22,948	6,150	17,422	23,572	5,668	17,395	23,063

The average cost per claim settled, dismissed or otherwise resolved for the years ended December 31, 1998, 1997 and 1996 was as follows:

	GROSS	NET
1998		
Asbestos	$390,300	$ 71,800
Environmental	49,600	21,500
Combined	93,700	28,000
1997		
Asbestos	$460,600	$ 77,000
Environmental	51,000	17,600
Combined	108,800	26,000
1996		
Asbestos	$396,700	$ 88,500
Environmental	34,900	11,400
Combined	83,000	21,600

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. The higher the ratio, the more years the reserves for losses and loss expenses cover these claims payments. These ratios are computed based on the ending reserves for losses and loss expenses over the respective claims settlements during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted, however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments thereof and the resultant ratio.

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

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

AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average payment. These ratios for the years ended December 31, 1998, 1997 and 1996 were as follows:

	GROSS	NET
1998		
Involuntary survival ratios:		
Asbestos	3.7	5.2
Environmental	17.0	17.2
Combined	7.8	10.8
1997		
Involuntary survival ratios:		
Asbestos	3.8	4.6
Environmental	14.6	18.0
Combined	7.7	11.2
1996		
Involuntary survival ratios:		
Asbestos	5.1	4.6
Environmental	16.2	18.8
Combined	9.4	11.5

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

AIG's operations are negatively impacted under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments net of credits for 1998, 1997 and 1996 were $16 million, $15 million and $19 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. One or more of these subsidiaries is licensed to write life insurance in all states in the United States and in over 70 foreign countries. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guaranteed investment contracts, universal life and pensions.

AIG's three principal overseas life operations are American Life Insurance Company (ALICO), American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA) and Nan Shan Life Insurance Company, Ltd. (Nan Shan). ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. (See also Note 17 of Notes to Financial Statements.)

Life insurance operations for the twelve month periods ending December 31, 1998, 1997 and 1996 were as follows:

(in millions)

	1998	1997	1996
Premium income:			
Domestic	$ 738	$ 553	$ 535
Foreign	9,509	9,373	8,443
Total	$ 10,247	$ 9,926	$ 8,978
Net investment income:			
Domestic	$ 920	$ 839	$ 930
Foreign	2,312	2,057	1,746
Total	$ 3,232	$ 2,896	$ 2,676
Operating income before realized capital gains (losses):			
Domestic	$ 150	$ 125	$ 100
Foreign	1,665	1,425	1,189
Total	1,815	1,550	1,289
Realized capital gains (losses)	(35)	21	35
Operating income	$ 1,780	$ 1,571	$ 1,324
Life insurance in-force:			
Domestic	$ 61,223	$ 59,517	$ 60,419
Foreign	437,944	377,056	361,564
Total	$ 499,167	$ 436,573	$ 421,983

AIG's life premium income in 1998 represented a 3.2 percent increase from the prior year. This compares with an increase of 10.6 percent in 1997 over 1996. Foreign life operations produced 92.8 percent, 94.4 percent and 94.0 percent of the life premium income in 1998, 1997 and 1996, respectively. (See also Notes 1, 4 and 6 of Notes to Financial Statements.)

AIG's life insurance operations, demonstrating the strength of its franchise, continued to show growth in original currencies. As previously discussed, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG conducts its foreign life operations, particularly AIA and Nan Shan. Accordingly, if foreign life premium income was translated into U.S. dollars utilizing those exchange rates which prevailed in 1997, thus mitigating the effects of the U.S. dollar's general strengthening, foreign life premium growth would have been 15.4 percent. This growth equates to growth in original currency. (See also the discussion under "Capital Resources" herein.)

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

Life insurance net investment income increased 11.6 percent in 1998 compared to an increase of 8.2 percent in 1997. The growth in net investment income in 1998 and 1997 was primarily attributable to foreign 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 $35 million in 1998, compared to realized capital gains of $21 million in 1997 and $35 million in 1996. These realized gains and losses resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income in 1998 increased 13.3 percent to $1.78 billion compared to an increase of 18.7 percent in 1997. Excluding realized capital gains and losses from life insurance operating income, the percent increases would be 17.1 percent and 20.3 percent in 1998 and 1997, respectively. The contribution of life insurance operating income to income before income taxes and minority interest amounted to 32.2 percent in 1998 compared to 33.2 percent in 1997 and 32.6 percent in 1996.

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

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage by using yearly renewable term reinsurance. The life insurance operations have not entered into assumption reinsurance transactions or surplus relief transactions during the three year period ended December 31, 1998. (See also Note 5 of Notes to Financial Statements.)

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

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

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of the related policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the investments may be at a yield below that of the interest required for the accretion of the policy liabilities. Additionally, there exists a future investment risk that is associated with certain policies which have future premium receipts. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities. At December 31, 1998, the average duration of the investment portfolio in Japan was 5.6 years. With respect to the investment of the future premium receipts the average duration is estimated to be 6.1 years. These durations compare with an estimated average duration of 8.7 years for the corresponding policy liabilities. To maintain an adequate yield to match the interest necessary to support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. Domestically, active monitoring assures appropriate asset-liability matching as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

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

FINANCIAL SERVICES OPERATIONS

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

International Lease Finance Corporation (ILFC) engages primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. (See also Note 17 of Notes to Financial Statements.)

AIG Financial Products Corp. and its subsidiaries (AIGFP)structure financial transactions, including long-dated interest rate and currency swaps and structures borrowings through notes, bonds and guaranteed investment agreements. (See also Note 17 of Notes to Financial Statements.)

AIG Trading Group Inc. and its subsidiaries (AIGTG)engage in various commodities trading, foreign exchange trading, interest rate swaps and market making activities. (See also Note 17 of Notes to Financial Statements.)

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

Financial services operations for the twelve month periods ending December 31, 1998, 1997 and 1996 were as follows:

(in millions)

	1998	1997	1996
Revenues:			
International Lease Finance Corp.	$ 2,002	$ 1,857	$ 1,560
AIG Financial Products Corp.*	550	452	369
AIG Trading Group Inc.*	374	562	289
Other	379	401	338
Total	$ 3,305	$ 3,272	$ 2,556
Operating income:			
International Lease Finance Corp.	$ 496	$ 382	$ 307
AIG Financial Products Corp.	323	241	189
AIG Trading Group Inc.	123	127	80
Other, including intercompany adjustments	(29)	(49)	(52)
Total	$ 913	$ 701	$ 524

*Represents net trading revenues.

Financial services operating income increased 30.2 percent in 1998 over 1997. This compares with an increase of 33.9 percent in 1997 over 1996.

Financial services operating income represented 16.5 percent of AIG's income before income taxes and minority interest in 1998. This compares to 14.8 percent and 12.9 percent in 1997 and 1996, respectively.

ILFC generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in 1998 increased 7.8 percent from 1997 compared to a 19.0 percent increase during 1997 from 1996. The revenue growth in each year resulted primarily from the increase in flight equipment available for operating lease, the increase in the relative cost of the leased fleet, the increase in the relative composition of the fleet with wide bodies which typically receive higher lease payments and, in 1997, an increase in the number of aircraft sold. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During 1998, operating income increased 29.6 percent from 1997 and 24.6 percent during 1997 from 1996. The composite borrowing rates at December 31, 1998, 1997 and 1996 were 6.03 percent, 6.44 percent and 6.23 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note 17 of Notes to Financial Statements.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and through committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. At December 31, 1998, there were 329 aircraft subject to operating leases and there were no aircraft off lease. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIG Financial Products Corp. and its subsidiaries (AIGFP) participate in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in 1998 increased 21.7 percent from 1997 compared to a 22.4 percent increase during 1997 from 1996. During 1998, operating income increased 34.0 percent from 1997 and increased 27.4 percent during 1997 from 1996. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note 17 of Notes to Financial Statements.)

AIG Trading Group Inc. and its subsidiaries (AIGTG) derive a substantial portion of their revenues from market making and trading activities, as principals, in foreign exchange, interest rates and precious and base metals. Revenues in 1998 decreased 33.5 percent from 1997 compared to a 94.7 percent increase during 1997 from 1996. During 1998, operating income decreased 2.4 percent from 1997 compared to a 57.9 percent increase during 1997 from 1996. The declines in 1998 relative to 1997 resulted primarily from the decline in trading volume during 1998. A substantial portion of AIGTG's improvement during 1997 over 1996 was currency trading activity in volatile foreign exchange markets. As AIGTG is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance or for comparing revenues to operating income. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note 17 of Notes to Financial Statements.)

In December 1997, AIGTG sold its energy operations. The sale of these operations did not have a significant impact on AIG's results of operations.

OTHER OPERATIONS

In 1998, AIG's equity in income of minority-owned insurance operations was $57 million compared to $114 million in 1997 and $99 million in 1996. In 1998, the equity interest in insurance companies represented 1.0 percent of income before income taxes and minority interest compared to 2.4 percent in both 1997 and 1996. The decrease in income of minority-owned insurance operations from 1997 to 1998, resulted primarily from the consolidation of Transatlantic's operations into general insurance operating results. In addition, SELIC Holdings, Ltd. was consolidated earlier this year. IPC Holdings, Ltd., the remaining operation included in equity in income of minority-owned insurance operations in previous periods is now reported as a component of other income (deductions) - net.

Other realized capital losses amounted to $5 million, $30 million and $12 million in 1998, 1997 and 1996, respectively.

Other income (deductions)-net includes AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, costs associated with the Year 2000 computer issues, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In 1998, net deductions amounted to $144 million. In 1997 and 1996, net deductions amounted to $97 million and $85 million, respectively. (See also the discussion under "Recent Developments" herein.)

Income before income taxes and minority interest amounted to $5.53 billion in 1998, $4.73 billion in 1997 and $4.06 billion in 1996.

In 1998, AIG recorded a provision for income taxes of $1.59 billion compared to the provisions of $1.37 billion and $1.12 billion in 1997 and 1996, respectively. These provisions represent effective tax rates of 28.8 percent in 1998, 28.9 percent in 1997 and 27.5 percent in 1996. (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 $169 million, $32 million and $43 million in 1998, 1997 and 1996, respectively. The increase in 1998 from 1997 was primarily related to the minority shareholders' equity resulting when Transatlantic and 20th Century were consolidated during 1998.

Net income amounted to $3.77 billion in 1998, $3.33 billion in 1997 and $2.90 billion in 1996. The increases in net income over the three year period resulted from those factors described above.

CAPITAL RESOURCES

At December 31, 1998, AIG had total capital funds of $27.13 billion and total borrowings of $30.69 billion. At that date, $27.80 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Total borrowings and borrowings not guaranteed or matched at December 31, 1998 and 1997 were as follows:

(in millions)

December 31,	1998	1997
GIAs-- AIGFP	$ 9,188	$ 8,000
Commercial Paper:		
AIG Funding	637	308
ILFC (a)	3,204	2,208
AICCO	727	834
Universal Finance Company (UFC) (a)	68	25
Total	4,636	3,375
Medium Term Notes:		
ILFC (a)	3,348	2,897
AIG	239	248
Total	3,587	3,145
Notes and Bonds Payable:		
ILFC (a)	3,825	3,950
AIGFP	7,265	4,859
AIG: Lire bonds	159	159
Zero coupon notes	102	91
Total	11,351	9,059
Loans and Mortgages Payable:		
ILFC (a) (b)	811	904
SPC Credit, Ltd. (SPC) (a)	532	539
AIG Consumer Finance (a)	254	--
AIG	334	239
Total	1,931	1,682
Total Borrowings	30,693	25,261
Borrowings not guaranteed by AIG	12,042	10,523
Matched GIA borrowings	9,188	8,000
Matched notes and bonds payable-- AIGFP	6,565	3,755
	27,795	22,278
Remaining borrowings of AIG	$ 2,898	$ 2,983

==

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

See also Note 9 of Notes to Financial Statements.

During 1998, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to $7.27 billion, a net increase of $2.41 billion and increased its net GIA borrowings by $1.19 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, 8, 9, 11 and 17 of Notes to Financial Statements.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC, A.I. Credit Corp. (AICCO) and UFC, a consumer finance subsidiary in Taiwan, issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's, ILFC's or UFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. From time to time, AIGFP may issue commercial paper, which AIG guarantees, to fund its operations. At December 31, 1998, AIGFP had no commercial paper outstanding. (See also the discussion under "Derivatives" herein and Note 9 of Notes to Financial Statements.)

AIG and Funding have entered into two syndicated revolving credit facilities (the Facilities) aggregating $1 billion. The Facilities consist of a $500 million 364 day revolving credit facility and a $500 million five year revolving credit facility. The Facilities can be used for general corporate purposes and also provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding as of December 31, 1998.

At December 31, 1998, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to $7.17 billion, a net increase of $326 million, and recorded a net decline in its capital lease obligations of $93 million and a net increase in its commercial paper of $996 million. At December 31, 1998, ILFC had $565 million in aggregate principal amount of debt securities registered for issuance from time to time. Through March 15, 1999, ILFC reduced this registered amount to $100 million through the sale of debt securities amounting to $465 million aggregate principal amount. Also, in March 1999, ILFC registered $2.0 billion in aggregate principal amount of debt securities for issuance from time to time. At that time, the aggregate principal amount of registered debt available for issuance was $2.1 billion. The proceeds of ILFC's debt financing are primarily used to purchase flight equipment, including progress payments during the construction phase. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During 1998, AIG issued $31 million principal amount of Medium Term Notes and $40 million of previously issued notes matured.

At December 31, 1998, AIG had $508 million in aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds increased $3.13 billion during 1998. Unrealized appreciation of investments, net of taxes decreased $278 million. During 1998, the cumulative translation adjustment loss, net of taxes, increased $100 million. The changes from year to year with respect to the unrealized appreciation of investments, net of taxes and the cumulative translation adjustment loss, net of taxes were primarily impacted by each of the economic situations in Japan and Southeast Asia and the general strength of the U.S. dollar against most currencies in which AIG conducts operations. (See also the discussion under "Operational Review" and "Liquidity" herein.) Retained earnings increased $2.59 billion, resulting from net income less dividends.

During 1998, AIG repurchased 1,044,750 shares of its common stock in the open market at a cost of $77 million. Shares repurchased prior to July 31, 1998, have been adjusted for the three for two stock split in the form of a 50 percent common stock dividend. AIG intends to continue to buy its common shares in the open market to satisfy its obligations under various employee benefit plans.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At December 31, 1998, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein and Note 10 of Notes to Financial Statements.)

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, 1998, the adjusted capital of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards by considerable margins.

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

LIQUIDITY

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

At December 31, 1998, AIG's consolidated invested assets included $5.25 billion of cash and short-term investments. Consolidated net cash provided from operating activities in 1998 amounted to $7.04 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately $12 billion in pre-tax cash flow during 1998. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately $5.6 billion in investment income cash flow during 1998. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses.

In addition to the combined insurance pre-tax operating cash flow, AIG's insurance operations held $4.91 billion in cash and short-term investments at December 31, 1998. The aforementioned operating cash flow and the cash and short-term balances held provided AIG's insurance operations with a significant amount of liquidity.

This liquidity is available, among other things, to purchase high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy loans and collateral loans. This cash flow coupled with proceeds of approximately $20 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $26 billion of fixed income securities and marketable equity securities during 1998.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued and real estate, at December 31, 1998 and 1997:

(dollars in millions)

	INVESTED ASSETS	PERCENT OF TOTAL
1998		
General insurance	$ 38,883	26.8%
Life insurance	48,715	33.6
Financial services	56,619	39.1
Other	714	0.5
Total	$144,931	100.0%
1997		
General insurance	$ 31,844	26.0%
Life insurance	41,047	33.5
Financial services	48,899	39.9
Other	662	0.6
Total	$122,452	100.0%

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

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, 1998 and 1997:

(dollars in millions)

DECEMBER 31, 1998	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	FOREIGN
Fixed maturities:						
Available for sale, at market value (a)	$15,939	$33,163	$49,102	56.1%	40.3%	59.7%
Held to maturity, at amortized cost	12,658	--	12,658	14.4	100.0	--
Equity securities, at market value (b)	3,923	1,717	5,640	6.4	51.1	48.9
Mortgage loans on real estate, policy and collateral loans	70	6,400	6,470	7.4	31.5	68.5
Short-term investments, including time deposits, and cash	873	4,039	4,912	5.6	21.6	78.4
Real estate	393	1,070	1,463	1.7	15.2	84.8
Investment income due and accrued	568	900	1,468	1.7	41.4	58.6
Other invested assets	4,459	1,426	5,885	6.7	80.4	19.6
Total	$38,883	$48,715	$87,598	100.0%	50.2%	49.8%

(a) Includes $1,005 of bonds trading securities, at market value.
(b) Includes $301 of preferred stock, at market value.

(dollars in millions)

DECEMBER 31, 1997	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	FOREIGN
Fixed maturities:						
Available for sale, at market value (a)	$11,326	$27,340	$38,666	53.0%	37.8%	62.2%
Held to maturity, at amortized cost (b)	12,770	--	12,770	17.5	100.0	--
Equity securities, at market value (c)	3,314	1,816	5,130	7.0	43.5	56.5
Mortgage loans on real estate, policy and collateral loans	50	6,148	6,198	8.5	39.0	61.0
Short-term investments, including time deposits, and cash	617	2,409	3,026	4.2	33.1	66.9
Real estate	402	980	1,382	1.9	16.8	83.2
Investment income due and accrued	529	817	1,346	1.9	39.7	60.3
Other invested assets	2,836	1,537	4,373	6.0	76.7	23.3
Total	$31,844	$41,047	$72,891	100.0%	51.0%	49.0%

(a) Includes $719 of bonds trading securities, at market value.
(b) Includes $239 of preferred stock, at amortized cost.
(c) Includes $112 of preferred stock, at market value.

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

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

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

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

At December 31, 1998, approximately 52.6 percent of the fixed maturities investments were domestic securities. Approximately 39 percent of such domestic securities were rated AAA. Approximately 11 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. AIGannually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At December 31, 1998, approximately 17 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 15 percent were below investment grade or not rated at that date. The decline in credit worthiness results not from a change in investment policy but rather from economic turmoil, particularly in Southeast Asia. A large portion of these fixed maturity securities are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

At December 31, 1998, approximately four percent of the fixed maturities portfolio was collateralized mortgage obligations (CMOs), including minor amounts with respect to commercial mortgage backed securities. All of the CMOs were investment grade and approximately 49 percent of the CMOs were backed by various U.S. government agencies. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the accelerated prepayments of the underlying mortgages. There were no interest only or principal only CMOs at December 31, 1998.

Any fixed income security may be subject to downgrade for a variety of reasons subsequent to any balance sheet date. There have been no significant downgrades as of March 1, 1999.

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

Mortgage loans on real estate, policy and collateral loans comprised 7.4 percent of AIG's insurance invested assets at December 31, 1998. AIG's insurance operations' holdings of real estate mortgages amounted to $2.76 billion of which 36.7 percent was domestic. At December 31, 1998, no domestic mortgages and only a nominal amount of foreign mortgages were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At December 31, 1998, AIG's insurance holdings of collateral loans amounted to $1.16 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 decreased from $2.67 billion at December 31, 1997 to $2.54 billion at December 31, 1998.

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

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

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

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, AIGand its insurance subsidiaries may enter into derivative transactions as end users. To date, such activities have not been significant. (See also the discussion under "Derivatives" herein.)

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

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

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

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

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

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

AIG calculated the VaR with respect to the net fair value of each of AIG's insurance segments as of December 31, 1998 and December 31, 1997. These calculations used the variance-covariance (delta-normal) methodology. These calculations also used daily historical interest and foreign currency exchange rates and equity prices in the two years ending December 31, 1998 and 1997, as applicable. The VaR model estimated the volatility of each of these rates, equity prices and the correlations among them. For interest rates, each country's yield curve was constructed using eleven separate points on this curve to model possible curve movements. Inter-country correlations were also used. The redemption experience of municipal and corporate fixed maturities and mortgage securities was taken into account as well as the use of financial modeling. Thus, the

VaR measured the sensitivity of the asset and the liability portfolios of each of the aforementioned market exposures. Each sensitivity was estimated separately to capture the market exposures within each insurance segment. These sensitivities were then applied to a database, which contained both historical ranges of movements in all market factors and the correlations among them. The results were aggregated to provide a single amount that depicts the maximum potential loss in fair value at a confidence level of 95 percent for a time period of one month. At December 31, 1998 and December 31, 1997 the VaR of AIG's insurance segments was approximately $760 million and $520 million for general insurance, respectively and $955 million and $799 million for life insurance, respectively.

The following table presents the VaR of each component of market risk for each of AIG's insurance segments as of December 31, 1998 and December 31, 1997. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

(in millions)

	GENERAL INSURANCE		LIFE INSURANCE	
MARKET RISK	1998	1997	1998	1997
Interest rate	$159	$236	$810	$779
Currency	24	26	416	85
Equity	684	355	234	120

FINANCIAL SERVICES INVESTED ASSETS

The following table is a summary of the composition of AIG's financial services invested assets at December 31, 1998 and 1997. (See also the discussions under "Operational Review: Financial Services Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in millions)

	1998		1997	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
Flight equipment primarily under operating leases, net of accumulated depreciation	$16,330	28.8%	$14,438	29.5%
Unrealized gain on interest rate and currency swaps, options and forward transactions	9,881	17.5	7,422	15.2
Securities available for sale, at market value	10,674	18.9	9,145	18.7
Trading securities, at market value	5,668	10.0	3,975	8.1
Securities purchased under agreements to resell, at contract value	4,838	8.5	4,551	9.3
Trading assets	6,229	11.0	6,715	13.8
Spot commodities, at market value	476	0.8	460	0.9
Other, including short-term investments	2,523	4.5	2,193	4.5
Total	$56,619	100.0%	$48,899	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 1998, ILFC acquired flight equipment costing $3.16 billion.

At December 31, 1998, ILFC had committed to purchase or had secured positions for 303 aircraft deliverable from 1999 through 2006 at an estimated aggregate purchase price of $17.4 billion. As of March 15, 1999, ILFC has entered into leases, letters of intent to lease or is in various stages of negotiation for all of the aircraft to be delivered in 1999 and 57 of 247 aircraft to be delivered subsequent to 1999. 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.

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

AIG calculated the VaR with respect to the net fair value of ILFC using the variance-covariance (delta-normal) methodology. This calculation also used daily historical interest rates for the two years ending December 31, 1998. The VaR model estimated the volatility of each of these interest rates and the correlation among them. The yield curve was constructed using eleven key points on the curve to model possible curve movements. Thus, the VaR measured the sensitivity of the assets and liabilities to the calculated interest rate exposures. These sensitivities were then applied to a database, which contained the historical ranges of movements in interest rates and the correlation among them. The results were aggregated to provide a single amount that depicts the maximum potential loss in fair value of a confidence level of 95 percent for a time period of one month. As of December 31, 1998, the VaR with respect to the aforementioned net fair value of ILFC was $9 million.

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

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

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At December 31, 1998, 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 $435 million of these securities. There were no securities deemed below investment grade at December 31, 1998. There have been no significant downgrades through March 1, 1999. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

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

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at December 31, 1998 were as follows:

(in millions)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value(a)	$ 483	$ 476
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions (b)(c)	9,881	7,055
Trading assets	7,435	4,611
Spot commodities, at market value	--	12
Trading liabilities	--	3,257
Securities and spot commodities sold but not yet purchased, at market value	407	--

(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, 1998, AIGTG's replacement values with respect to interest rate and currency swaps were $642 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, 1998, the unrealized gains and losses remaining after the benefit of the offsets were $43 million and $35 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 manage a variety of exposures including credit, market, liquidity, operational and legal risks.

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

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

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

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

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

AIGFP does not seek to manage the market risk of each of its transactions through an individual offsetting transaction. Rather, AIGFP takes a portfolio approach to the management of its market risk exposure. AIGFP values its portfolio at market value or estimated fair value when market values are not readily available. These valuations represent an assessment of the present values of expected future cash flows of AIGFP's transactions and may include reserves for such risks as are deemed appropriate by AIGFP's and AIG's management. AIGFP evaluates the portfolio's discounted cash flows with reference to current market conditions, maturities within the portfolio and other relevant factors. Based upon this evaluation, AIGFP determines what, if any, offsetting transactions are necessary to reduce the market risk exposure of the portfolio.

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

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

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

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

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

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

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

A significant portion of AIGTG's business is transacted in liquid markets. Certain of AIGTG's derivative product exposures are evaluated using simulation techniques which consider such factors as changes in currency and commodity prices, interest rates, volatility levels and the effect of time. Though not indicative of the future, past volatile market scenarios have represented profit opportunities for AIGTG.

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

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

AIG calculated the VaR with respect to AIGFP and AIGTG as of December 31, 1998 and December 31, 1997. These calculations used the variance-covariance (delta-normal) methodology. These calculations also used, where appropriate for each entity, daily historical interest and foreign currency exchange rates and equity/commodity prices in the two years ending December 31, 1998 and December 31, 1997, as applicable. The VaR model estimated the volatility of each of these rates, prices and the correlations among them. For interest rates, the yield curves of the United States and certain foreign countries were constructed using eleven separate points on each country's yield curve to model possible curve movements. Inter-country correlations were also used. The redemption experience of corporate fixed maturities was taken into account. Thus, the VaR measured the sensitivity of the asset and the liability portfolios of each of the market exposures. Each sensitivity was estimated separately to capture the market exposures within each entity. These sensitivities were then applied to a database, which contained both historical ranges of movements in all market factors and the correlations among them. The results depict the maximum potential loss in fair value at a confidence level of 95 percent.

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

The following table presents the VaR on a combined basis and of each component of AIGFP's and AIGTG's market risk as of December 31, 1998 and December 31, 1997. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

(in millions)

	AIGFP(A)		AIGTG(B)	
MARKET RISKS	1998	1997	1998	1997
Combined	$42	$24	$3	$4
Interest rate	42	24	3	4
Currency	--	--	2	2
Equity/Commodity	2	--	--	--

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

DERIVATIVES

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

The most commonly used swaps are interest rate and currency swaps. An interest rate swap is a contract between two parties to exchange interest rate payments (typically a fixed interest rate versus a variable interest rate) calculated on a notional principal amount for a specified period of time. The notional amount is not exchanged. A currency swap is similar but the notional amounts are different currencies which are typically exchanged at the commencement and termination of the swap based upon negotiated exchange rates.

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

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

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

Derivatives are generally either negotiated over the counter contracts or standardized contracts executed on an exchange. Standardized exchange traded derivatives include futures and options which can be readily bought or sold over recognized security or commodity exchanges and settled daily through such clearing houses. Negotiated over the counter derivatives include forwards, swaps and options. Over the counter derivatives are generally not traded like exchange traded securities. However, in the normal course of business, with the agreement of the original counterparty, these contracts may be terminated early or assigned to another counterparty.

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

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

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

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

The following tables provide the notional and contractual amounts of AIGFP's and AIGTG's derivatives transactions at December 31, 1998 and December 31, 1997.

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

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at December 31, 1998 and December 31, 1997:

(in millions)

	REMAINING LIFE ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1998	TOTAL 1997
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$ 85,379	$105,850	$57,556	$ 7,132	$255,917	$200,491
Currency swaps	27,943	26,154	16,916	2,881	73,894	54,748
Swaptions and equity swaps	2,306	6,102	5,780	1,497	15,685	11,217
Total	$115,628	$138,106	$80,252	$11,510	$345,496	$266,456
Futures and forward contracts:						
Exchange traded futures contracts contractual amount	$ 8,290	--	--	--	$ 8,290	$ 4,411
Over the counter forward contracts contractual amount	$ 42,825	$ 61	$ 12	--	$ 42,898	$ 13,271

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1998 and December 31, 1997, 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 1998	TOTAL 1997
Counterparty credit quality:				
AAA	$2,360	$ --	$2,360	$2,327
AA	3,358	330	3,688	2,311
A	1,789	94	1,883	1,165
BBB	1,040	45	1,085	608
Below investment grade	210	--	210	290
Total	$8,757	$469	$9,226	$6,701

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

At December 31, 1998 and December 31, 1997, 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 1998	TOTAL 1997
Non-U.S. banks	$2,708	$169	$2,877	$2,263
Insured municipalities	784	--	784	757
U.S. industrials	1,120	5	1,125	514
Governmental	603	--	603	677
Non-U.S. financial service companies	272	--	272	65
Non-U.S. industrials	1,145	--	1,145	1,035
Special purpose	423	--	423	163
U.S. banks	617	294	911	585
U.S. financial service companies	931	1	932	434
Supranationals	154	--	154	208
Total	$8,757	$469	$9,226	$6,701

The following tables provide the contractual and notional amounts of AIGTG's derivatives portfolio at December 31, 1998 and December 31, 1997. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the December 31, 1998 balances based upon the expected timing of the future cash flows.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at December 31, 1998 and December 31, 1997. 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.

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at December 31, 1998 and December 31, 1997:

(in millions)

	REMAINING LIFE ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1998	TOTAL 1997
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 9,777	$ 1,985	$ 74	$ --	$ 11,836	$ 24,579
Forwards	$ 263,312	$ 17,306	$ 1,539	$ --	$ 282,157	$ 267,959
Over the counter purchased options	$ 31,039	$ 21,300	$ 5,213	$ 1,308	$ 58,860	$ 60,274
Over the counter sold options (a)	$ 31,922	$ 20,374	$ 5,091	$ 1,474	$ 58,861	$ 58,190
Notional amount:						
Interest rate swaps and forward rate agreements	$ 77,872	$ 24,605	$ 7,334	$ 980	$ 110,791	$ 77,503
Currency swaps	1,488	4,854	1,170	--	7,512	6,489
Swaptions	81	1,377	1,889	2,419	5,766	1,634
Total	$ 79,441	$ 30,836	$ 10,393	$ 3,399	$ 124,069	$ 85,626
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	$ 7,274	$ 1,806	$ 544	$ 167	$ 9,791	$ 11,020
Master netting arrangements	(4,224)	(930)	(306)	(150)	(5,610)	(5,798)
Collateral	(313)	(29)	(15)	(2)	(359)	(225)
Net replacement value (b)	$ 2,737	$ 847	$ 223	$ 15	$ 3,822	$ 4,997

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

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

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1998 and December 31, 1997, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE	
	1998	1997
Counterparty credit quality:		
AAA	$ 462	$ 753
AA	1,821	2,503
A	1,066	1,024
BBB	221	343
Below investment grade	26	98
Not externally rated, including exchange traded futures and options*	226	276
Total	$3,822	$4,997
Counterparty breakdown by industry:		
Non-U.S. banks	$1,253	$2,686
U.S. industrials	381	164
Governmental	184	135
Non-U.S. financial service companies	406	260
Non-U.S. industrials	150	168
U.S. banks	593	560
U.S. financial service companies	629	748
Exchanges*	226	276
Total	$3,822	$4,997

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

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

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

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

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

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

ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" (FASB 130) and Statement of Financial Accounting Standards No. 131 "Disclosure about Segments of an Enterprise and Related Information" (FASB 131).

FASB 130 establishes standards for reporting comprehensive income and its components in a full set of general purpose financial statements. FASB 130 was effective for AIG as of January 1, 1998. FASB 130 had no impact on AIG's results of operations, financial condition or liquidity.

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

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

In June 1998, FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). This statement requires AIG to recognize all derivatives in the consolidated balance sheet measuring these derivatives at fair value. The recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative. Currently, AIGTG and AIGFP present, in all material respects, the changes in fair value of their derivative transactions as a component of AIG's operating income. AIG is evaluating the impact of FASB 133 with respect to derivative transactions entered into by other AIG operations. AIG believes that the impact of FASB 133 on its results of operations, financial condition or liquidity will not be significant. FASB 133 is effective for the year commencing January 1, 2000.

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

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

YEAR 2000 ISSUES

Any statements contained herein that are not historical facts, or that might be considered an opinion or projection, whether expressed or implied, are meant as, and should be considered, forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on assumptions and opinions concerning a variety of known and unknown risks, including those risks related to the Year 2000 issue. If any assumptions or opinions prove incorrect, any forward-looking statements made on that basis may also prove materially incorrect.

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

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

The plan for addressing internal systems includes an assessment of internal IT and non-IT systems and equipment affected by the Year 2000 issue; definition of strategies to address affected systems and equipment; remediation of identified affected systems and equipment; and internal certification that each internal system is Year 2000 compliant. AIG has remediated, tested and returned to production substantially all of its internal IT systems. AIG continues to remediate and test internal non-IT systems and expects to complete remediation by mid-1999.

AIG has also initiated formal communications with respect to the Year 2000 issue to those third parties which have significant interaction with AIG. Currently, AIG is unable to ascertain whether all such third parties will successfully address the Year 2000 issue, particularly those third parties outside the United States where it is believed that remediation efforts relating to the Year 2000 issue may be less advanced. While AIG expects to have no interruption of operations as a result of its internal IT and non-IT systems, significant uncertainties remain about the effect on AIG of third parties who are not Year 2000 compliant. AIG will continue to monitor third party Year 2000 issue readiness to determine whether additional or alternative measures may be necessary. Such measures may include the selection of alternate third parties or other actions designed to mitigate the effects of a third party's lack of preparedness. There can be no assurance that unresolved Year 2000 issues of third parties will not have a material adverse impact on AIG's results of operations, financial condition or liquidity. AIG is considering the effects of Year 2000 related failures on its business and, as the most reasonably likely worst case scenarios become more clearly identified, AIG will develop appropriate contingency plans.

The costs associated with addressing the Year 2000 issue, including developing and implementing the above stated plans and remediating affected systems and equipment, has approximated $115 million and has been expensed as incurred.

RECENT DEVELOPMENTS

On January 1, 1999, certain of the member nations of the European Economic and Monetary Union (EMU) adopted a common currency, the euro. Once the national currencies are phased out, the euro will be the sole legal tender of each of these nations. During the transition period, commerce of these nations will be transacted in the euro or in the currently existing national currency.

AIG has identified the significant issues and is prepared with respect to the phase in of and ultimate redenomination to the euro. Any costs associated with the adoption of the euro are expensed as incurred and are not material to AIG's results of operations, financial condition or liquidity.

The merger of SunAmerica Inc., a leading company in the retirement savings and asset accumulation business, with and into AIG was effective January 1, 1999. The transaction will be treated as a pooling of interests for accounting purposes.

AIG issued 0.855 shares in exchange for each share of SunAmerica Inc. stock outstanding at the effective time of the merger for an aggregate issuance of approximately 187.5 million shares. (See also Note 19 of Notes to Financial Statements.)

ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

- ---

REPORT OF INDEPENDENT ACCOUNTANTS

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 at December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards, 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 the opinion expressed above.

PricewaterhouseCoopers LLP

New York, New York
February 11, 1999.

CONSOLIDATED BALANCE SHEET American International Group, Inc. and Subsidiaries

(in millions)

December 31,	1998	1997
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 1998-$46,190; 1997-$36,568)	$ 48,243	$ 38,078
Bonds held to maturity, at amortized cost (market value: 1998-$13,633; 1997-$13,366)	12,658	12,530
Bonds trading securities, at market value (cost: 1998-$990; 1997-$700)	1,005	719
Preferred stocks, at amortized cost (market value: 1997-$531)	--	239
Equity securities:		
Common stocks (cost: 1998-$5,430; 1997-$4,625)	5,565	5,209
Non-redeemable preferred stocks (cost: 1998-$335; 1997-$138)	328	139
Mortgage loans on real estate, policy and collateral loans-net	8,247	7,920
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1998-$2,048; 1997-$1,657)	16,330	14,438
Securities available for sale, at market value (amortized cost: 1998-$10,667; 1997-$9,145)	10,674	9,145
Trading securities, at market value	5,668	3,975
Spot commodities, at market value	476	460
Unrealized gain on interest rate and currency swaps, options and forward transactions	9,881	7,422
Trading assets	6,229	6,715
Securities purchased under agreements to resell, at contract value	4,838	4,551
Other invested assets	6,419	4,681
Short-term investments, at cost (approximates market value)	4,944	3,333
Cash	303	87
Total investments and cash	141,808	119,641
Investment income due and accrued	1,571	1,368
Premiums and insurance balances receivable-net	11,679	10,283
Reinsurance assets	17,744	16,111
Deferred policy acquisition costs	7,647	6,593
Investments in partially-owned companies	418	1,121
Real estate and other fixed assets, net of accumulated depreciation (1998-$1,733; 1997-$1,513)	2,651	2,342
Separate and variable accounts	7,256	3,994
Other assets	3,624	2,518
TOTAL ASSETS	$194,398	$163,971

See Accompanying Notes to Financial Statements

CONSOLIDATED BALANCE SHEET (continued)

American International Group, Inc. and Subsidiaries

(in millions, except share amounts)

December 31,	1998	1997
LIABILITIES:		
Reserve for losses and loss expenses	$ 38,310	$ 33,400
Reserve for unearned premiums	10,009	8,739
Future policy benefits for life and accident and health insurance contracts	29,571	24,502
Policyholders' contract deposits	12,573	10,323
Other policyholders' funds	2,720	2,352
Reserve for commissions, expenses and taxes	2,225	1,740
Insurance balances payable	2,283	1,703
Funds held by companies under reinsurance treaties	837	337
Income taxes payable:		
Current	222	585
Deferred	852	471
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	9,188	8,000
Securities sold under agreements to repurchase, at contract value	4,473	2,706
Trading liabilities	4,664	5,366
Securities and spot commodities sold but not yet purchased, at market value	4,457	5,172
Unrealized loss on interest rate and currency swaps, options and forward transactions	7,055	5,980
Deposits due to banks and other depositors	1,242	972
Commercial paper	3,204	2,208
Notes, bonds and loans payable	15,249	12,609
Commercial paper	1,432	1,167
Notes, bonds, loans and mortgages payable	1,620	1,277
Separate and variable accounts	7,256	3,994
Other liabilities	7,425	5,967
TOTAL LIABILITIES	166,867	139,570
PREFERRED SHAREHOLDERS' EQUITY IN SUBSIDIARY COMPANY	400	400
CAPITAL FUNDS:		
Common stock, $2.50 par value; 2,000,000,000 shares authorized; shares issued 1998-1,138,658,321; 1997-759,121,505	2,847	1,898
Additional paid-in capital	85	106
Retained earnings	25,513	22,921
Accumulated other comprehensive income	(206)	172
Treasury stock, at cost; 1998-88,929,071; 1997-59,603,224 shares of common stock (including 62,589,661 and 41,726,541 shares, respectively, held by subsidiaries)	(1,108)	(1,096)
TOTAL CAPITAL FUNDS	27,131	24,001
TOTAL LIABILITIES AND CAPITAL FUNDS	$ 194,398	$ 163,971

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

American International Group, Inc. and Subsidiaries

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	1998	1997	1996
GENERAL INSURANCE OPERATIONS:			
Net premiums written	$ 14,586	$ 13,408	$ 12,692
Change in unearned premium reserve	(488)	(987)	(837)
Net premiums earned	14,098	12,421	11,855
Net investment income	2,192	1,854	1,691
Realized capital gains	205	128	65
	16,495	14,403	13,611
Losses incurred	9,164	7,801	7,279
Loss expenses incurred	1,493	1,555	1,718
Underwriting expenses (principally policy acquisition costs)	2,910	2,575	2,408
	13,567	11,931	11,405
OPERATING INCOME	2,928	2,472	2,206
LIFE INSURANCE OPERATIONS:			
Premium income	10,247	9,926	8,978
Net investment income	3,232	2,896	2,676
Realized capital (losses) gains	(35)	21	35
	13,444	12,843	11,689
Death and other benefits	4,543	4,052	3,733
Increase in future policy benefits	4,551	4,759	4,370
Acquisition and insurance expenses	2,570	2,461	2,262
	11,664	11,272	10,365
OPERATING INCOME	1,780	1,571	1,324
FINANCIAL SERVICES OPERATING INCOME	913	701	524
EQUITY IN INCOME OF MINORITY-OWNED INSURANCE OPERATIONS	57	114	99
OTHER REALIZED CAPITAL LOSSES	(5)	(30)	(12)
OTHER INCOME (DEDUCTIONS)-NET	(144)	(97)	(85)
INCOME BEFORE INCOME TAXES AND MINORITY INTEREST	5,529	4,731	4,056
INCOME TAXES:			
Current	931	1,274	1,071
Deferred	663	93	45
	1,594	1,367	1,116
INCOME BEFORE MINORITY INTEREST	3,935	3,364	2,940
MINORITY INTEREST	(169)	(32)	(43)
NET INCOME	$ 3,766	$ 3,332	$ 2,897
EARNINGS PER COMMON SHARE:			
Basic	$3.59	$3.16	$2.73
Diluted	3.57	3.15	2.72
AVERAGE SHARES OUTSTANDING:			
Basic	1,050	1,053	1,060
Diluted	1,055	1,057	1,064

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CAPITAL FUNDS

American International Group, Inc. and Subsidiaries

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	1998	1997	1996
COMMON STOCK:			
Balance at beginning of year	$ 1,898	$ 1,265	$ 1,265
Stock split effected as dividend	949	633	--
Balance at end of year	2,847	1,898	1,265
ADDITIONAL PAID-IN CAPITAL:			
Balance at beginning of year	106	127	132
Excess of cost over proceeds of common stock issued under stock option and stock purchase plans	(28)	(29)	(16)
Other	7	8	11
Balance at end of year	85	106	127
RETAINED EARNINGS:			
Balance at beginning of year	22,921	20,421	17,698
Net income	3,766	3,332	2,897
Stock dividends to shareholders	(949)	(633)	--
Cash dividends to shareholders:			
Common ($.21, $.19 and $.17 per share, respectively)	(225)	(199)	(174)
Balance at end of year	25,513	22,921	20,421
ACCUMULATED OTHER COMPREHENSIVE INCOME:			
Balance at beginning of year	172	885	939
Unrealized appreciation (depreciation) of investments-net of reclassification adjustments	(366)	(117)	9
Deferred income tax benefit (expense) on changes	88	89	(26)
Foreign currency translation adjustments	(137)	(754)	(67)
Applicable income tax benefit on changes	37	69	30
Other comprehensive income	(378)	(713)	(54)
Balance at end of year	(206)	172	885
TREASURY STOCK, AT COST:			
Balance at beginning of year	(1,096)	(654)	(207)
Cost of shares acquired during year	(81)	(508)	(494)
Issued under stock option and stock purchase plans	68	66	39
Other	1	--	8
Balance at end of year	(1,108)	(1,096)	(654)
TOTAL CAPITAL FUNDS AT END OF YEAR	$ 27,131	$ 24,001	$ 22,044

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

American International Group, Inc. and Subsidiaries

(in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996
SUMMARY:			
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,036	$ 3,035	$ 9,575
NET CASH USED IN INVESTING ACTIVITIES	(14,368)	(4,856)	(14,455)
NET CASH PROVIDED BY FINANCING ACTIVITIES	7,548	1,849	4,851
CHANGE IN CASH	216	28	(29)
CASH AT BEGINNING OF YEAR	87	59	88
CASH AT END OF YEAR	$ 303	$ 87	$ 59
CASH FLOWS FROM OPERATING ACTIVITIES:			
NET INCOME	$ 3,766	$ 3,332	$ 2,897
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Non-cash revenues, expenses, gains and losses included in income:			
Change in:			
General and life insurance reserves	6,990	1,767	4,131
Premiums and insurance balances receivable and payable-net	(733)	(796)	(261)
Reinsurance assets	(972)	416	352
Deferred policy acquisition costs	(978)	(121)	(704)
Investment income due and accrued	(111)	(170)	15
Funds held under reinsurance treaties	370	(47)	39
Other policyholders' funds	368	133	128
Current and deferred income taxes-net	206	477	(78)
Reserve for commissions, expenses and taxes	455	229	254
Other assets and liabilities-net	(347)	468	(394)
Trading assets and liabilities-net	(216)	(869)	(57)
Trading securities, at market value	(1,693)	(1,617)	284
Spot commodities, at market value	(16)	(255)	179
Net unrealized gain on interest rate and currency swaps, options and forward transactions	(1,382)	49	(131)
Securities purchased under agreements to resell	(287)	(2,909)	379
Securities sold under agreements to repurchase	1,767	(333)	1,659
Securities and spot commodities sold but not yet purchased, at market value	(715)	3,603	364
Realized capital gains	(165)	(119)	(88)
Equity in income of partially-owned companies and other invested assets	(176)	(157)	(153)
Depreciation expenses, principally flight equipment	932	873	806
Change in cumulative translation adjustments	(137)	(754)	(67)
Other-net	110	(165)	21
Total adjustments	3,270	(297)	6,678
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 7,036	$ 3,035	$ 9,575

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

American International Group, Inc. and Subsidiaries

(in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cost of fixed maturities, at amortized cost matured or redeemed	$ 1,578	$ 1,226	$ 1,627
Cost of bonds, at market sold	11,089	9,308	9,514
Cost of bonds, at market matured or redeemed	4,610	3,775	2,481
Cost of equity securities sold	2,784	2,262	2,758
Realized capital gains	165	119	88
Purchases of fixed maturities	(22,638)	(16,922)	(19,511)
Purchases of equity securities	(3,277)	(1,916)	(3,218)
Acquisitions, net of cash acquired	(515)	--	--
Mortgage, policy and collateral loans granted	(1,894)	(2,243)	(3,276)
Repayments of mortgage, policy and collateral loans	1,567	2,200	3,260
Sales of securities available for sale	2,618	4,310	2,062
Maturities of securities available for sale	1,848	3,232	1,603
Purchases of securities available for sale	(5,967)	(6,916)	(9,531)
Sales of flight equipment	687	2,231	1,363
Purchases of flight equipment	(3,160)	(3,435)	(3,254)
Net additions to real estate and other fixed assets	(624)	(517)	(581)
Sales or distributions of other invested assets	1,479	1,274	1,198
Investments in other invested assets	(3,293)	(1,479)	(1,263)
Change in short-term investments	(1,424)	(1,325)	264
Investments in partially-owned companies	(1)	(40)	(39)
NET CASH USED IN INVESTING ACTIVITIES	$(14,368)	$ (4,856)	$(14,455)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in policyholders' contract deposits	$ 2,250	$ 1,015	$ 222
Change in deposits due to banks and other depositors	270	(234)	249
Change in commercial paper	1,261	(1,123)	1,331
Proceeds from notes, bonds, loans and mortgages payable	7,811	7,604	6,150
Repayments on notes, bonds, loans and mortgages payable	(4,973)	(7,016)	(2,775)
Liquidation of zero coupon notes payable	--	(12)	--
Proceeds from guaranteed investment agreements	6,540	4,930	3,583
Maturities of guaranteed investment agreements	(5,353)	(2,653)	(3,283)
Proceeds from common stock issued	40	37	23
Cash dividends to shareholders	(225)	(200)	(174)
Acquisition of treasury stock	(81)	(508)	(494)
Other-net	8	9	19
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 7,548	$ 1,849	$ 4,851
SUPPLEMENTARY INFORMATION:			
TAXES PAID	$ 1,162	$ 808	$ 1,068
INTEREST PAID	$ 1,919	$ 1,734	$ 1,595

See Accompanying Notes to Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

American International Group, Inc. and Subsidiaries

(in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996
COMPREHENSIVE INCOME:			
Net income	$ 3,766	$ 3,332	$ 2,897
OTHER COMPREHENSIVE INCOME:			
Unrealized appreciation (depreciation) of investments-net of reclassification adjustments	(366)	(117)	9
Deferred income tax benefit (expense) on changes	88	89	(26)
Foreign currency translation adjustments	(137)	(754)	(67)
Applicable income tax benefit on changes	37	69	30
OTHER COMPREHENSIVE INCOME	(378)	(713)	(54)
COMPREHENSIVE INCOME	$ 3,388	$ 2,619	$ 2,843

See Accompanying Notes to Financial Statements.

- --

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of American International Group, Inc. and all significant subsidiaries (AIG). Some of AIG's foreign subsidiaries report on a fiscal year ending November 30. All material intercompany accounts and transactions have been eliminated. Commencing with the third quarter 1998, Transatlantic and 20th Century were consolidated into AIG's financial statements as AIG became the majority shareholder of these entities.

(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 1997 and 1996 financial statements to conform to their 1998 presentation.

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 more than 100 foreign countries. 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 are deferred and amortized over the period in which the related premiums written are earned. Investment income is not anticipated in the deferral of acquisition costs. (See Note 4.)

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 continually 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. One or more of these subsidiaries is licensed to write life insurance in all states of the United States and in over 70 foreign countries. Traditional products consist of individual and group life, annuity, endowment and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guaranteed investment contracts and universal life. Premiums for traditional life insurance products are generally recognized as revenues over the premium paying period of the related policies. 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. Expenses include interest credited to policy account balances and benefit payments made in excess of policy account balances. Investment income reflects certain minor 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. Deferred policy acquisition costs and policy initiation costs related to universal life and investment-type products are amortized in relation to expected gross profits over the life of the policies. (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 reported 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 amounts contingent on usage. AIG is also a remarketer of flight equipment for its own account and for airlines and financial institutions. AIG's revenues from such operations consist of net gains on sales of flight equipment and commissions.

(C) INVESTMENTS IN FIXED MATURITIES AND EQUITY SECURITIES: Bonds and preferred stocks held to maturity, both of which are principally owned by the insurance subsidiaries, are carried at amortized cost where AIG has the ability and positive intent to hold these securities until maturity. Where AIG may not have the positive intent to hold these securities until maturity, those bonds

are considered to be available for sale and carried at current market values.
Interest income with respect to fixed maturity securities is accrued currently.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 life.

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.

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 realizable value.

(D) 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 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.

(E) 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. 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.

(F) 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 loss or gain resulting from the hedging derivative transaction is recognized in income in that same period as the realized gain or loss of the hedged security.

(G) 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.

(H) SPOT COMMODITIES, AT MARKET VALUE: Spot commodities are carried at current market values and are recorded on a settlement 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.

(I) UNREALIZED GAIN AND UNREALIZED LOSS ON INTEREST RATE AND CURRENCY SWAPS, OPTIONS AND FORWARD TRANSACTIONS: Swaps, 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. These valuations represent an assessment of the present values of expected future cash flows of these transactions and may include reserves for market risk as deemed appropriate. 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 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.

(J) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(K) 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 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.

(L) 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 nature of the invested asset and the ownership percentage thereof. Other investments are carried at cost or market values depending upon the nature of the underlying assets. Unrealized gains and losses from the revaluation of those investments carried at market values are reflected in capital funds, net of any related deferred income taxes.

(M) REINSURANCE ASSETS: Reinsurance assets include the balances due from both reinsurance and insurance companies under the terms of AIG's reinsurance arrangements 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. It also includes funds held under reinsurance treaties.

(N) 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). Equity in income of minority-owned insurance operations is presented separately in the consolidated statement of income. Equity in net income of other unconsolidated companies is principally included in other income (deductions)-net. At December 31, 1998, AIG's significant investments in partially-owned companies included its 19.9 percent interest in Richmond Insurance Company; and its 24.4 percent interest in IPC Holdings, Ltd. This balance sheet caption also includes investments in less significant partially-owned companies and in certain minor majority-owned subsidiaries. The amount of dividends received from unconsolidated subsidiaries owned less than 50 percent were $24 million, $30 million and $13 million in 1998, 1997 and 1996 respectively. The undistributed earnings of unconsolidated subsidiaries owned less than 50 percent was $59 million as of December 31, 1998.

In January 1998, AIG purchased the 76.1 percent of the outstanding shares of SELIC Holdings, Ltd. (SELIC) which AIG did not own. Prior to the purchase of these shares, SELIC's operations were accounted for on an equity basis and presented as a component of equity in income of minority-owned insurance operations. Subsequent to the acquisition, SELIC was consolidated as a component of general insurance operations.

As a result of purchases of the common stock of Transatlantic, as of August 1998, AIG owns more than 50 percent of the voting securities of Transatlantic. Commencing with the third quarter of 1998, AIG accounted for its investment in Transatlantic on a consolidated basis.

(O) 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.

(P) SEPARATE AND VARIABLE ACCOUNTS: Separate and variable accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders. 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.

(Q) 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.

(R) PREFERRED SHAREHOLDERS' EQUITY IN SUBSIDIARY COMPANY: Preferred shareholders' equity in subsidiary company relates to outstanding market auction preferred stock of International Lease Finance Corporation (ILFC), a wholly owned subsidiary of AIG. Dividends on such preferred stock are accounted for as interest expense and included as minority interest in the consolidated statement of income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(S) 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" (FASB 52). Under FASB 52, functional currency assets and liabilities are translated into U.S. dollars generally using current rates of exchange 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 capital funds.

(T) 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.

(U) 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.

The computation of earnings per share for December 31, 1998, 1997 and 1996 was as follows:

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	1998	1997	1996
NUMERATOR:			
Net income applicable to common stock	$ 3,766	$ 3,332	$ 2,897
DENOMINATOR:			
Average outstanding shares used in the computation of per share earnings:			
Common stock issued	1,139	1,139	1,139
Common stock in treasury	(89)	(86)	(79)
Average outstanding shares-basic	1,050	1,053	1,060
Stock options and stock purchase plan (treasury stock method)	5	4	4
Average outstanding shares-diluted	1,055	1,057	1,064
Earnings per share:			
Basic	$ 3.59	$ 3.16	$ 2.73
Diluted	3.57	3.15	2.72

(V) ACCOUNTING STANDARDS: In June 1997, FASB issued Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" (FASB 130) and Statement of Financial Accounting Standards No. 131 "Disclosure about Segments of an Enterprise and Related Information" (FASB 131).

FASB 130 establishes standards for reporting comprehensive income and its components in a full set of general purpose financial statements. FASB 130 was effective for AIG as of January 1, 1998. FASB 130 had no impact on AIG's results of operations, financial condition or liquidity.

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

In February 1998, FASB issued Statement of Financial Accounting Standards No. 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits"(FASB 132). This statement requires AIG to revise its disclosures about pension and other postretirement benefit plans and does not change the measurement or recognition of these plans. Also, FASB 132 requires additional information on changes in the benefit obligations and fair values of plan assets. FASB132 was effective for the year ended December 31, 1998 and has been adopted herein.

In June 1998, FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). This statement requires AIG to recognize all derivatives in the consolidated balance sheet measuring these derivatives at fair value. The recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative. Currently, AIG Financial Products Corp. and its subsidiaries (AIGFP) and AIG Trading Group Inc. and its subsidiaries (AIGTG) present, in all material respects, the changes in fair value of their derivative transactions as a component of AIG's operating income. AIG is evaluating the impact of FASB 133 with respect to derivative transactions entered into by other AIG operations. AIG believes that the impact of FASB 133 on its results of operations, financial condition or liquidity will not be significant. FASB 133 is effective for the year commencing January 1, 2000.

In December 1997, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued Statement of Position (SOP) 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments." This statement provides guidance for the recording of a liability for insurance-related assessments. The statement requires that a liability be recognized in certain defined circumstances. AIG believes that the impact of this

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

statement on its results of operations, financial condition or liquidity will not be significant. This statement is effective for the year commencing January 1, 1999.

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

2. FOREIGN OPERATIONS

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 39 percent and 36 percent of consolidated assets at December 31, 1998 and 1997, respectively, and 53 percent of revenues for the year ended December 31, 1998 and 54 percent for each of the years ended December 31, 1997 and 1996, respectively, were located in or derived from foreign countries (other than Canada). (See Note 17.)

3. FEDERAL INCOME TAXES

(a) AIG and its domestic subsidiaries file a consolidated U.S. Federal income tax return. Revenue Agent's Reports assessing additional taxes for the years 1987, 1988, 1989 and 1990 have been issued and Letters of Protest contesting the assessments have been filed with the Internal Revenue Service. It is management's belief that there are substantial arguments in support of the positions taken by AIG in its Letters of Protest. AIG also believes that the impact of the results of these examinations will not be significant to AIG's financial condition, results of operations or liquidity.

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 $3.3 billion at December 31, 1998. 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.

(b) The U.S. Federal income tax rate is 35 percent for 1998, 1997 and 1996. 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,	1998		1997		1996	
	AMOUNT	PERCENT OF PRE-TAX INCOME	AMOUNT	PERCENT OF PRE-TAX INCOME	AMOUNT	PERCENT OF PRE-TAX INCOME
"Expected" tax expense	$ 1,935	35.0%	$ 1,656	35.0%	$ 1,420	35.0%
Adjustments:						
Tax exempt interest	(284)	(5.1)	(287)	(6.1)	(279)	(6.9)
Dividends received deduction	(11)	(0.2)	(15)	(0.3)	(24)	(0.6)
State income taxes	25	0.5	31	0.7	47	1.2
Foreign income not expected to be taxed in the U.S., less foreign income taxes	(85)	(1.5)	(33)	(0.7)	(22)	(0.5)
Other	14	0.1	15	0.3	(26)	(0.7)
Actual tax expense	$ 1,594	28.8%	$ 1,367	28.9%	$ 1,116	27.5%
Foreign and domestic components of actual tax expense:						
Foreign:						
Current	$ 386		$ 317		$ 392	
Deferred	31		75		(1)	
Domestic*:						
Current	545		957		679	
Deferred	632		18		46	
Total	$ 1,594		$ 1,367		$ 1,116	

*Including U.S. tax on foreign income.

3. FEDERAL INCOME TAXES (continued)

(c) The components of the net deferred tax liability as of December 31, 1998 and December 31, 1997 were as follows:

(in millions)

	1998	1997
Deferred tax assets:		
Loss reserve discount	$1,275	$1,235
Unearned premium reserve reduction	390	322
Accruals not currently deductible	555	505
Adjustment to life policy reserves	636	650
Cumulative translation adjustment	151	116
Other	8	18
	3,015	2,846
Deferred tax liabilities:		
Deferred policy acquisition costs	1,614	1,387
Financial service products mark to market differential	224	144
Depreciation of flight equipment	1,137	943
Acquisition net asset basis adjustments	93	119
Unrealized appreciation of investments	601	593
Other	198	131
	3,867	3,317
Net deferred tax liability	$ 852	$ 471

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,	1998	1997	1996
General insurance operations:			
Balance at beginning of year	$ 1,637	$ 1,416	$ 1,290
Acquisition costs deferred			
Commissions	664	592	592
Other	909	845	714
	1,573	1,437	1,306
Amortization charged to income			
Commissions	568	552	557
Other	790	664	623
	1,358	1,216	1,180
Balance at end of year	$ 1,852	$ 1,637	$ 1,416
Life insurance operations:			
Balance at beginning of year	$ 4,956	$ 5,055	$ 4,478
Acquisition costs deferred			
Commissions	873	931	941
Other	395	403	400
	1,268	1,334	1,341
Amortization charged to income			
Commissions	383	411	427
Other	206	220	201
	589	631	628
Increase (decrease) due to foreign exchange	160	(802)	(136)
Balance at end of year	$ 5,795	$ 4,956	$ 5,055
Total deferred policy acquisition costs	$ 7,647	$ 6,593	$ 6,471

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. 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 one million dollars of coverage per individual life. There are smaller retentions for other lines of business. Life reinsurance is effected principally under yearly renewable term treaties. 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
1998		
Gross premiums	$ 20,684	$ 20,092
Ceded premiums	(6,098)	(5,994)
Net premiums	$ 14,586	$ 14,098
1997		
Gross premiums	$ 18,742	$ 17,566
Ceded premiums	(5,334)	(5,145)
Net premiums	$ 13,408	$ 12,421
1996		
Gross premiums	$ 18,319	$ 17,580
Ceded premiums	(5,627)	(5,725)
Net premiums	$ 12,692	$ 11,855

For the years ended December 31, 1998, 1997 and 1996, reinsurance recoveries, which reduced loss and loss expenses incurred, amounted to $5.36 billion, $4.59 billion and $5.07 billion, respectively.

5. REINSURANCE (continued)

Life insurance net premium income was comprised of the following:

(in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996
Gross premium income	$ 10,532	$ 10,212	$ 9,239
Ceded premiums	(285)	(286)	(261)
Net premium income	$ 10,247	$ 9,926	$ 8,978

Life insurance recoveries, which reduced death and other benefits, approximated $138 million, $136 million and $113 million, respectively, for the years ended December 31, 1998, 1997 and 1996.

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,	1998	1997	1996
Life insurance in-force	$58,235	$50,924	$44,691

Life insurance assumed represented 0.3 percent of gross life insurance in-force at December 31, 1998 and 1997 and 0.2 percent for 1996, and life insurance premium income assumed represented 0.3 percent, 0.2 percent and 0.1 percent of gross premium income for the periods ended December 31, 1998, 1997 and 1996.

Supplemental information for gross loss and benefit reserves net of ceded reinsurance at December 31, 1998 and 1997 follows:

(in millions)

	As Reported	Net of Reinsurance
DECEMBER 31, 1998		
Reserve for losses and loss expenses	$(38,310)	$(24,619)
Future policy benefits for life and accident and health insurance contracts	(29,571)	(29,433)
Premiums and insurance balances receivable-net	11,679	13,394
Funds held under reinsurance treaties	--	446
Reserve for unearned premiums	(10,009)	(8,255)
Reinsurance assets	17,744	--
December 31, 1997		
Reserve for losses and loss expenses	$(33,400)	$(21,171)
Future policy benefits for life and accident and health insurance contracts	(24,502)	(24,374)
Premiums and insurance balances receivable-net	10,283	12,306
Funds held under reinsurance treaties	--	81
Reserve for unearned premiums	(8,739)	(7,089)
Reinsurance assets	16,111	--

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,	1998	1997	1996
At beginning of year:			
Reserve for losses and loss expenses	$33,400	$33,430	$33,047
Reinsurance recoverable	(12,229)	(13,023)	(13,354)
	21,171	20,407	19,693
Acquisitions	2,896	--	--
Losses and loss expenses incurred:			
Current year	10,938	9,732	9,273
Prior year	(281)	(376)	(276)
Total	10,657	9,356	8,997
Losses and loss expenses paid:			
Current year	4,389	2,976	3,002
Prior year	5,716	5,616	5,281
Total	10,105	8,592	8,283
At end of year:			
Net reserve for losses and loss expenses	24,619	21,171	20,407
Reinsurance recoverable	13,691	12,229	13,023
Total	$38,310	$33,400	$33,430

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

(b) The analysis of the future policy benefits and policyholders' contract deposits liabilities as at December 31, 1998 and 1997 follows:

(in millions)

	1998	1997
Future policy benefits:		
Long duration contracts	$28,535	$23,918
Short duration contracts	1,036	584
Total	$29,571	$24,502
Policyholders' contract deposits:		
Annuities	$ 5,159	$ 4,759
Guaranteed investment contracts (GICs)	3,626	2,677
Corporate life products	2,266	1,967
Universal life	639	540
Other investment contracts	883	380
Total	$12,573	$10,323

(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 3.0 percent to 12.0 percent within the first 20 years. Interest rates on immediate/terminal funding annuities are at a maximum of 12.2 percent and grade to not greater than 7.5 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 7.8 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 30 percent of the gross insurance in-force at December 31, 1998 and 46 percent of gross premium income in 1998. The amount of dividends to be paid is determined annually by the Boards of Directors. Anticipated dividends are considered as a planned contractual benefit in computing the value of future policy benefits and are provided ratably over the premium-paying period of the contracts.

(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 3.0 percent to 7.1 percent. Credited interest rate guarantees are generally for a period of one year. Withdrawal charges generally range from 3.0 percent to 10.0 percent grading to zero over a period of 5 to 10 years.

(ii) Domestically, GICs have market value withdrawal provisions for any funds withdrawn other than benefit responsive payments. Interest rates credited generally range from 4.7 percent to 8.1 percent and maturities range from 1 to 20 years. Overseas, primarily in the United Kingdom, GIC type contracts are credited at rates ranging from 4.6 percent to 6.5 percent with guarantees generally being one year. Contracts in other foreign locations have interest rates, maturities and withdrawal charges based upon local economic and regulatory conditions.

(iii) Interest rates on corporate life insurance products are guaranteed at 4.0 percent and the weighted average rate credited in 1998 was 7.0 percent.

(iv) The universal life funds have credited interest rates of 4.5 percent to 7.5 percent and guarantees ranging from 3.5 percent to 5.5 percent depending on the year of issue. Additionally, universal life funds are subject to surrender charges that amount to 11.0 percent of the fund balance grading to zero over a period not longer than 20 years.

(e) Experience adjustments, relating to future policy benefits and policyholders' contract deposits, vary according to the type of contract and the territory in which the policy is in force. In general terms, investments, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, 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,	1998	1997	1996
Statutory surplus:			
General insurance	$15,523	$14,071	$12,311
Life insurance	6,912	5,535	5,542
Statutory net income*:			
General insurance	2,252	2,041	1,727
Life insurance	823	1,100	851

* 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. INVESTMENT INFORMATION

(A) STATUTORY DEPOSITS: Cash and securities with carrying values of $4.09 billion and $3.86 billion were deposited by AIG's subsidiaries under requirements of regulatory authorities as of December 31, 1998 and 1997, 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,	1998	1997	1996
General insurance:			
Fixed maturities	$1,663	$1,490	$1,392
Equity securities	80	55	75
Short-term investments	73	40	41
Other (net of interest expense on funds held)	481	337	253
Total investment income	2,297	1,922	1,761
Investment expenses	105	68	70
Net investment income	$2,192	$1,854	$1,691
Life insurance:			
Fixed maturities	$2,321	$2,031	$1,773
Equity securities	49	64	87
Short-term investments	224	70	62
Interest on mortgage, policy and collateral loans	527	539	678
Other	269	309	194
Total investment income	3,390	3,013	2,794
Investment expenses	158	117	118
Net investment income	$3,232	$2,896	$2,676

(C) INVESTMENT GAINS AND LOSSES: The realized capital gains (losses) and increase (decrease) in unrealized appreciation of investments for 1998, 1997 and 1996 were as follows:

(in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996
Realized capital gains (losses) on investments:			
Fixed maturities (a)	$ 119	$ 86	$ (33)
Equity securities	90	125	157
Other	(44)	(92)	(36)
Realized capital gains	$ 165	$ 119	$ 88
Increase (decrease) in unrealized appreciation of investments:			
Fixed maturities	$ 543	$ 228	$(227)
Equity securities	(457)	(423)	266
Other (b)	(452)	78	(30)
Increase (decrease) in unrealized appreciation	$(366)	$(117)	$ 9

(a) The realized gains (losses) resulted from the sale of available for sale fixed maturities.
(b) Includes $301 million increase, $158 million decrease and $51 million increase in unrealized appreciation attributable to participating policyholders at December 31, 1998, 1997 and 1996, respectively.

The gross gains and gross losses realized on the disposition of available for sale securities for 1998, 1997 and 1996 follow:

(in millions)

	GROSS REALIZED GAINS	GROSS REALIZED LOSSES

1998		
Bonds	$204	$ 69
Common stocks	528	453
Preferred stocks	3	5
Financial services securities available for sale	4	--
Total	$739	$527
1997		
Bonds	$ 79	$ 72
Common stocks	536	413
Preferred stocks	3	1
Financial services securities available for sale	6	2
Total	$624	$488
1996		
Bonds	$ 55	$ 80
Common stocks	354	201
Preferred stocks	4	1
Financial services securities available for sale	7	1
Total	$420	$283

(D) MARKET VALUE OF FIXED MATURITIES AND UNREALIZED APPRECIATION OF INVESTMENTS: At December 31, 1998 and 1997, the balance of the unrealized appreciation of investments in equity securities (before applicable taxes) included gross gains of approximately $1.3 billion and $1.8 billion and gross losses of approximately $1.2 billion and $1.3 billion, respectively.

The deferred tax payable related to the net unrealized appreciation of investments was $601 million at December 31, 1998 and $593 million at December 31, 1997.

8. INVESTMENT INFORMATION (continued)

The amortized cost and estimated market value of investments in fixed maturities carried at amortized cost at December 31, 1998 and 1997 were as follows:

(in millions)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
1998				
Fixed maturities held to maturity:				
Bonds:				
U.S. Government (a)	$ 9	$ 1	$ --	$ 10
States (b)	12,648	975	2	13,621
All other corporate	1	1	--	2
Total fixed maturities	$12,658	$ 977	$ 2	$13,633
1997				
Fixed maturities held to maturity:				
Bonds:				
U.S. Government (a)	$ 9	$ 1	$ --	$ 10
States (b)	12,521	836	1	13,356
Total bonds	12,530	837	1	13,366
Preferred stocks	239	292	--	531
Total fixed maturities	$12,769	$ 1,129	$ 1	$13,897

(a) Including U.S. Government agencies and authorities.
(b) Including municipalities and political subdivisions.

The amortized cost and estimated market value of bonds available for sale and carried at market value at December 31, 1998 and 1997 were as follows:

(in millions)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
1998				
Fixed maturities available for sale:				
Bonds:				
U.S. Government (a)	$ 2,069	$ 178	$ 1	$ 2,246
States (b)	6,514	427	65	6,876
Foreign governments	10,523	671	42	11,152
All other corporate	27,084	1,197	312	27,969
Total bonds	$46,190	$ 2,473	$ 420	$48,243
1997				
Fixed maturities available for sale:				
Bonds:				
U.S. Government (a)	$ 1,254	$ 117	$ 1	$ 1,370
States (b)	5,870	333	2	6,201
Foreign governments	8,311	374	104	8,581
All other corporate	21,133	905	112	21,926
Total bonds	$36,568	$ 1,729	$ 219	$38,078

(a) Including U.S. Government agencies and authorities.
(b) Including municipalities and political subdivisions.

The amortized cost and estimated market values of fixed maturities held to maturity and fixed maturities available for sale at December 31, 1998, 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 held to maturity:		
Due in one year or less	$ 520	$ 554
Due after one year through five years	1,722	1,849
Due after five years through ten years	3,075	3,314
Due after ten years	7,341	7,916
Total held to maturity	$12,658	$13,633
Fixed maturities available for sale:		
Due in one year or less	$ 3,347	$ 3,388
Due after one year through five years	17,731	18,375
Due after five years through ten years	15,031	15,780
Due after ten years	10,081	10,700
Total available for sale	$46,190	$48,243

(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 $435 million of securities available for sale. At December 31, 1998, the cumulative increase 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 $7 million.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. INVESTMENT INFORMATION (continued)

The amortized cost, related hedges and estimated market value of securities available for sale and carried at market value at December 31, 1998 and 1997 were as follows:

(in millions)

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	UNREALIZED GAINS (LOSSES) - NET ON HEDGING TRANSACTIONS	ESTIMATED MARKET VALUE
1998					
Securities available for sale:					
Corporate and bank debt	$ 5,440	$149	$13	$(131)	$ 5,445
Foreign government obligations	405	16	1	(15)	405
Asset-backed and collateralized	3,037	91	8	(95)	3,025
Preferred stocks	970	10	--	3	983
U.S. Government obligations	815	15	--	(14)	816
Total	$10,667	$281	$22	$(252)	$10,674
1997					
Securities available for sale:					
Corporate and bank debt	$ 5,203	$ 45	$37	$ (10)	$ 5,201
Foreign government obligations	337	2	30	29	338
Asset-backed and collateralized	2,344	34	16	(17)	2,345
Preferred stocks	675	--	1	1	675
U.S. Government obligations	586	12	--	(12)	586
Total	$ 9,145	$ 93	$84	$ (9)	$ 9,145

The amortized cost and estimated market values of securities available for sale at December 31, 1998, 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	$ 807	$ 807
Due after one year through five years	4,445	4,459
Due after five years through ten years	1,293	1,299
Due after ten years	1,085	1,084
Asset-backed and collateralized	3,037	3,025
Total available for sale	$10,667	$10,674

No securities available for sale were below investment grade at December 31, 1998.

(F) CMOS: At December 31, 1998, CMOs, held by AIG's life companies, were presented as a component of bonds available for sale, at market value. All of the CMOs were investment grade and approximately 49 percent of the CMOs were backed by various U.S. government agencies. The remaining 51 percent were corporate issuances.

At December 31, 1998 and 1997, the market value of the CMO portfolio was $2.65 billion and $2.58 billion, respectively; the amortized cost was approximately $2.56 billion in 1998 and $2.47 billion in 1997. AIG's CMO portfolio is readily marketable. There were no derivative (high risk) CMO securities contained in this portfolio at December 31, 1998 and 1997.

The distribution of the CMOs at December 31, 1998 and 1997 was as follows:

	1998	1997
GNMA	14%	20%
FHLMC	18	19
FNMA	14	16

VA	3	4
Other	51	41
	100%	100%

At December 31, 1998, the gross weighted average coupon of this portfolio was 6.9 percent. The gross weighted average life of this portfolio was 5.12 years.

(G) FIXED MATURITIES BELOW INVESTMENT GRADE: At December 31, 1998, fixed maturities held by AIG that were below investment grade or not rated totaled $7.18 billion.

(H) At December 31, 1998, non-income producing invested assets were insignificant.

9. DEBT OUTSTANDING

At December 31, 1998, AIG's debt outstanding of $30.69 billion, shown below, included borrowings of $27.80 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	$ 9,188
Commercial Paper:	
AIG Funding Inc. (Funding)	637
ILFC (a)	3,204
A.I. Credit Corp. (AICCO)	727
Universal Finance Company (UFC) (a)	68
Total	4,636
Medium Term Notes:	
ILFC (a)	3,348
AIG	239
Total	3,587
Notes and Bonds Payable:	
ILFC (a)	3,825
AIGFP	7,265
AIG: Lire bonds	159
Zero coupon notes	102
Total	11,351
Loans and Mortgages Payable:	
ILFC (a) (b)	811
SPC Credit Limited (SPC) (a)	532
Consumer Finance (a)	254
AIG	334
Total	1,931
Total Borrowings	30,693
Borrowings not guaranteed by AIG	12,042
Matched GIA borrowings	9,188
Matched notes and bonds payable-- AIGFP	6,565
	27,795
Remaining borrowings of AIG	$ 2,898

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

(A) COMMERCIAL PAPER: At December 31, 1998, the commercial paper issued and outstanding was as follows:

(dollars in millions)

	NET BOOK VALUE	UNAMORTIZED DISCOUNT	FACE AMOUNT	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE MATURITY
Funding	$ 637	$ 2	$ 639	5.07%	28 days
ILFC	3,204	11	3,215	5.30	83 days
AICCO	727	2	729	5.24	20 days
UFC*	68	1	69	7.04	182 days
Total	$4,636	$16	$4,652	--	--

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

Commercial paper issued by Funding is guaranteed by AIG. AIG has entered into an agreement in support of AICCO's commercial paper. AIG does not guarantee ILFC's or UFC's commercial paper.

(B) 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 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)	PRINCIPAL AMOUNT
1999	$4,460
2000	865
2001	370
2002	110
2003	67
Remaining years after 2003	3,316
Total	$9,188

At December 31, 1998, the market value of securities pledged as collateral with respect to these obligations approximated $961 million.

Funds received from GIA borrowings are invested in a diversified portfolio of securities and derivative transactions.

(C) MEDIUM TERM NOTES PAYABLE:

(i) Medium Term Notes Payable Issued by AIG:AIG's Medium Term Notes are unsecured obligations which normally 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 the Medium Term Notes for the year ended December 31, 1998 was as follows:

(in millions)

MEDIUM TERM NOTE SERIES:	B	E	TOTAL
Balance December 31, 1997	$40	$208	$248
Issued during year	--	31	31
Matured during year	(40)	--	(40)
Balance December 31, 1998	$--	$239	$239

The interest rates on this debt range from 2.25 percent to 6.25 percent. To the extent deemed appropriate, AIG may enter into swap transactions to reduce its effective borrowing rates with respect to these notes.

During 1997, AIG issued $100 million principal amount of equity-linked Medium Term Notes due July 30, 2004. These notes accrue interest at the rate of 2.25 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 July 30, 2000. In conjunction with the issuance of these notes, AIG entered into a series of swap transactions

9. DEBT OUTSTANDING (continued)

which effectively converted its interest expense to a fixed rate of 5.87 percent and transferred the equity appreciation exposure to a third party.

At December 31, 1998, the maturity schedule for AIG's outstanding Medium Term Notes was as follows:

(in millions)

	PRINCIPAL AMOUNT
1999	$108
2000	31
Remaining years after 2003	100
Total	$239

At December 31, 1998, AIG had $508 million principal amount of Term Notes registered and available for issuance from time to time.

(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, 1998, notes in aggregate principal amount of $3.35 billion were outstanding with maturity dates from 1999 to 2005 at interest rates ranging from 4.85 percent to 8.55 percent. These notes provide for a single principal payment at the maturity of each note.

At December 31, 1998, the maturity schedule for ILFC's outstanding Medium Term Notes was as follows:

(in millions)

	Principal Amount
1999	$ 733
2000	1,005
2001	867
2002	378
2003	260
Remaining years after 2003	105
Total	$3,348

(D) NOTES AND BONDS PAYABLE:

(i) 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 52.72 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 1998 and 1997, no notes were repurchased. At December 31, 1998, the notes outstanding had a face value of $189 million, an unamortized discount of $87 million and a net book value of $102 million. The amortization of the original issue discount was recorded as interest expense.

(ii) Italian Lire Bonds: In December, 1991, AIG issued unsecured bonds denominated in Italian Lire. The principal amount of 200 billion Italian Lire Bonds matures December 4, 2001 and accrues interest at a rate of 11.7 percent which is paid annually. These bonds are not redeemable prior to maturity, except in the event of certain changes involving taxation in the United States or the imposition of certain certification, identification or reporting requirements.

Simultaneous with the issuance of this debt, AIG entered into a swap transaction which effectively converted AIG's net interest expense to a U.S. dollar liability of approximately 7.9 percent, which requires the payment of proceeds at maturity of approximately $159 million in exchange for 200 billion Italian Lire and interest thereon.

(iii) Term Notes Issued by ILFC: ILFC has issued unsecured obligations which may not be redeemed prior to maturity.

As of December 31, 1998, notes in aggregate principal amount of $3.83 billion were outstanding with maturity dates from 1999 to 2004 and interest rates ranging from 5.50 percent to 8.88 percent. Term notes in the aggregate principal amount of $300 million 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, 1998, the maturity schedule for ILFC's Term Notes was as follows:

(in millions)

	PRINCIPAL AMOUNT
1999	$1,150
2000	900
2001	1,075
2002	400
2003	200
Remaining years after 2003	100
Total	$3,825

AIG does not guarantee any of the debt obligations of ILFC.

9. DEBT OUTSTANDING (continued)

(iv) Notes and Bonds Payable Issued by AIGFP:At December 31, 1998, AIGFP's bonds outstanding, the proceeds of which are invested in a segregated portfolio of securities available for sale, were as follows:

(dollars in millions)

YEAR OF ISSUE	YEAR OF MATURITY	CURRENCY	INTEREST RATE	U.S. DOLLAR CARRYING VALUE
1993	1999	French franc	4.60%	$ 515
1998	1999	United Kingdom pound	6.91	414
1998	1999	Denmark krone	3.56	115
1997	2002	US dollar	5.16	150
1997	1999	Irish punt	6.20	158
1997	2000	Irish punt	6.19	294
1997	2000	Irish punt	5.95	148
1997	2002	New Zealand dollar	8.52	125
1998	1999	Italian lire	7.19	327
1998	2020	US dollar	8.75	129
1998	2020	US dollar	8.75	378
1997	1999	New Zealand dollar	9.43	117
1996	1999	New Zealand dollar	8.51	354
1998	2000	Irish punt	6.51	141
1995	2000	Italian lire	7.76	123
1998	2001	US dollar	5.47	500
1998	2001	US dollar	5.45	850
1998	2003	US dollar	5.47	1,000
1998	2022	US dollar	7.25	120
1998	1999	US dollar	5.63	210
1998	2002	Japanese yen	4.50	190
Total				$6,358

AIGFP is also obligated under various notes maturing from 1999 through 2026. The majority of these notes are denominated in U.S. dollars and bear interest at various interest rates. At December 31, 1998, these notes had a U.S. dollar carrying value of $907 million.

AIG guarantees all of AIGFP's debt.

(E) LOANS AND MORTGAGES PAYABLE: Loans and mortgages payable at December 31, 1998, consisted of the following:

(in millions)

	ILFC	SPC	CONSUMER FINANCE	AIG	TOTAL
Uncollateralized loans payable	$ --	$532	$254	$123	$ 909
Collateralized loans and mortgages payable	811	--	--	211	1,022
Total	$811	$532	$254	$334	$1,931

At December 31, 1998, ILFC's capital lease obligations were $811 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 $1.14 billion.

(F) REVOLVING CREDIT FACILITIES: AIG and Funding have entered into two syndicated revolving credit facilities (the Facilities) aggregating $1 billion. The Facilities consist of a $500 million 364 day revolving credit facility and a $500 million five year revolving credit facility. The Facilities can be used for general corporate purposes and also provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding as of December 31, 1998.

(G) INTEREST EXPENSE FOR ALL INDEBTEDNESS: Total interest expense for all indebtedness, net of capitalized interest, aggregated $1.87 billion in 1998, $1.70 billion in 1997 and $1.49 billion in 1996. Dividends on the preferred stock of ILFC are accounted for as interest expense and included as minority interest in the consolidated statement of income. The dividends for December 31, 1998, 1997 and 1996 were approximately $17 million in each of the three years.

10. CAPITAL FUNDS

(a) At December 31, 1998, there were 6,000,000 shares of AIG's $5 par value serial preferred stock authorized, issuable in series.

(b) 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 65 percent of consolidated capital funds were restricted from immediate transfer to AIG parent at December 31, 1998.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. CAPITAL FUNDS (continued)

(c) The common stock activity for the three years ended December 31, 1998 was as follows:

	1998	1997	1996
Shares outstanding at beginning of year	699,518,281	469,441,146	474,184,226
Acquired during year	(974,815)	(4,657,254)	(5,384,672)
Issued under stock option and purchase plans	1,171,964	984,322	540,768
Issued in connection with acquisition	--	4,391	100,824
Issued under contractual obligations	37,123	1,967	--
Stock split effected as stock dividend	379,536,828	253,037,334	--
Other*	(29,560,131)	(19,293,625)	--
Shares outstanding at end of year	1,049,729,250	699,518,281	469,441,146

* Shares issued to AIG and subsidiaries as part of stock split effected as stock dividend.

Common stock increased and retained earnings decreased $949 million in 1998 and $633 million in 1997 as a result of common stock splits in the form of 50 percent common stock dividends paid July 31, 1998 and July 25, 1997, respectively.

(d) Statement of Accounting Standards No. 130 "Comprehensive Income" (FASB 130) was adopted by AIG effective January 1, 1998. FASB 130 establishes standards for reporting comprehensive income and its components as part of capital funds. The reclassification adjustments with respect to available for sale securities were $165 million, $119 million and $88 million for December 31, 1998, 1997 and 1996, respectively.

11. 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, made principally by AIG Capital Corp., approximated $92 million for both December 31, 1998 and December 31, 1997. 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. In addition, these instruments involve, to varying degrees, elements of credit risk not explicitly recognized 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 off-balance sheet 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. Because of limited liquidity of certain of these instruments, the recorded estimated fair values of such instruments may be different than the values that might be realized if AIGFP were to sell or close out the transactions prior to maturity.

AIGFP, as principal and for its own account, enters into interest rate, currency and equity swaps, swaptions and forward commitments. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. AIGFP typically becomes a principal in the exchange of interest payments between the parties and, therefore, may be exposed to loss, if counterparties default. Currency and equity swaps are similar to interest rate swaps, but may involve the exchange of principal amounts at the beginning and end of the transaction. At December 31, 1998, the notional principal amount of the sum of the swap pays and receives approximated $345.5 billion, primarily related to interest rate swaps of approximately $255.9 billion.

The following tables provide the contractual and notional amounts of derivatives transactions of AIGFP and AIGTG at December 31, 1998.

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 and AIGTG. 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.

11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at December 31, 1998 and December 31, 1997:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1998	TOTAL 1997
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$ 85,379	$105,850	$57,556	$ 7,132	$255,917	$200,491
Currency swaps	27,943	26,154	16,916	2,881	73,894	54,748
Swaptions and equity swaps	2,306	6,102	5,780	1,497	15,685	11,217
Total	$115,628	$138,106	$80,252	$11,510	$345,496	$266,456

Futures and forward contracts are contracts for delivery of foreign currencies or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from contracted prices and the potential inability of counterparties to meet their obligations under the contracts. At December 31, 1998, the contractual amount of AIGFP's futures and forward contracts approximated $51.2 billion.

The following table presents AIGFP's futures and forward contracts portfolio by maturity and type of derivative at December 31, 1998 and December 31, 1997:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1998	TOTAL 1997
Futures and forward contracts:						
Exchange traded futures contracts contractual amount	$ 8,290	--	--	--	$ 8,290	$ 4,411
Over the counter forward contracts contractual amount	$42,825	$61	$12	--	$42,898	$13,271

These instruments involve, to varying degrees, elements of credit risk not explicitly recognized in the consolidated financial statements. AIGFP utilizes various credit enhancements, including collateral, credit triggers and credit derivatives to reduce the credit exposure relating to these off-balance sheet financial instruments. AIGFP requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties and the transaction's size and maturity. In addition, AIGFP's derivative transactions are generally documented under ISDA Master Agreements. Such agreements provide for legally enforceable set-off and close out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, AIGFP is permitted to set off its receivables from a counterparty against its payables to the same counterparty arising out of all included transactions. As a result, the net replacement value represents the net sum of estimated positive fair values after the application of such strategies, agreements and collateral held. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss. The net replacement value of all interest rate, currency, and equity swaps, swaptions and forward commitments at December 31, 1998, approximated $8.76 billion. The net replacement value for futures and forward contracts at December 31, 1998, approximated $469 million.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1998 and December 31, 1997, 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 1998	TOTAL 1997
Counterparty credit quality:				
AAA	$2,360	$ --	$2,360	$2,327
AA	3,358	330	3,688	2,311
A	1,789	94	1,883	1,165
BBB	1,040	45	1,085	608
Below investment grade	210	--	210	290
Total	$8,757	$ 469	$9,226	$6,701

At December 31, 1998 and December 31, 1997, 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 1998	TOTAL 1997
Non-U.S. banks	$2,708	$169	$2,877	$2,263
Insured municipalities	784	--	784	757
U.S. industrials	1,120	5	1,125	514
Governmental	603	--	603	677
Non-U.S. financial service companies	272	--	272	65
Non-U.S. industrials	1,145	--	1,145	1,035
Special purpose	423	--	423	163
U.S. banks	617	294	911	585
U.S. financial service companies	931	1	932	434
Supranationals	154	--	154	208
Total	$8,757	$469	$9,226	$6,701

AIGFP has entered into commitments to provide liquidity for certain tax-exempt variable rate demand notes issued by municipal entities. The agreements allow the holders, in certain circumstances, to tender the notes to the issuer at par value. In the event a remarketing agent of an issuer is unable to resell such tendered notes, AIGFP would be obligated to purchase the notes at par value. With respect to certain notes that have been issued, AIGFP has fulfilled its liquidity commitments by arranging bank liquidity facilities. These banks agree to purchase the notes that AIGFP is otherwise obligated to purchase in connection with a failed remarketing. It is the intention of AIGFP to arrange similar liquidity with respect to the $123 million aggregate amount of notes that are expected to be issued through 1999.

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 potential counterparty defaults.

The net trading revenues for the twelve months ended December 31, 1998, 1997 and 1996 from AIGFP's operations were $550 million, $452 million and $369 million, respectively.

(d) AIGTG becomes a party to off-balance sheet financial instruments in the normal course of its business and to reduce its currency, interest rate and commodity exposures.

The following tables provide the contractual and notional amounts of

AIGTG's derivatives portfolio at December 31, 1998 and December 31, 1997. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the December 31, 1998 balances based upon the expected timing of the future cash flows.

Futures and forward contracts are contracts for delivery of foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from con-

11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

tracted prices and the potential inability of counterparties to meet their obligations under the contracts. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts. As a writer of options, AIGTG generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index. At December 31, 1998, the contractual amount of AIGTG's futures, forward and option contracts approximated $411.71 billion.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at December 31, 1998 and December 31, 1997. 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, 1998, the net replacement value of AIGTG's futures, forward and option contracts and interest rate and currency swaps approximated $3.8 billion.

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at December 31, 1998 and December 31, 1997:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1998	TOTAL 1997
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 9,777	$ 1,985	$ 74	$ --	$ 11,836	$ 24,579
Forwards	$263,312	$ 17,306	$ 1,539	$ --	$282,157	$267,959
Over the counter purchased options	$ 31,039	$ 21,300	$ 5,213	$ 1,308	$ 58,860	$ 60,274
Over the counter sold options (a)	$ 31,922	$ 20,374	$ 5,091	$ 1,474	$ 58,861	$ 58,190
Notional amount:						
Interest rate swaps and forward rate agreements	$ 77,872	$ 24,605	$ 7,334	$ 980	$110,791	$ 77,503
Currency swaps	1,488	4,854	1,170	--	7,512	6,489
Swaptions	81	1,377	1,889	2,419	5,766	1,634
Total	$ 79,441	$ 30,836	$ 10,393	$ 3,399	$124,069	$ 85,626
Credit exposure:						
Futures, forwards swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	$ 7,274	$ 1,806	$ 544	$ 167	$ 9,791	$ 11,020
Master netting arrangements	(4,224)	(930)	(306)	(150)	(5,610)	(5,798)
Collateral	(313)	(29)	(15)	(2)	(359)	(225)
Net replacement value (b)	$ 2,737	$ 847	$ 223	$ 15	$ 3,822	$ 4,997

(a) Sold options obligate AIGTG to buy or sell the underlying item if the option purchaser chooses to exercise. The amounts do not represent credit exposure.
(b) The net replacement values with respect to exchange traded futures and options, forward contracts and purchased over the counter options are presented as a component of trading assets in the accompanying balance sheet. The net replacement values with respect to interest rate and currency swaps are presented as a component of unrealized gain on interest rate and currency swaps, options and forward transactions in the accompanying balance sheet.

AIGTG 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1998 and December 31, 1997, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE 1998	NET REPLACEMENT VALUE 1997
Counterparty credit quality:		
AAA	$ 462	$ 753
AA	1,821	2,503
A	1,066	1,024
BBB	221	343
Below investment grade	26	98
Not externally rated, including exchange traded futures and options*	226	276
Total	$3,822	$4,997
Counterparty breakdown by industry:		
Non-U.S. banks	$1,253	$2,686
U.S. industrials	381	164
Governmental	184	135
Non-U.S. financial service companies	406	260
Non-U.S. industrials	150	168
U.S. banks	593	560
U.S. financial service companies	629	748
Exchanges*	226	276
Total	$3,822	$4,997

* 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, 1998, AIGTG did not have a significant concentration of credit risk from either an individual counterparty or group of counterparties.

The net trading revenues for the twelve months ended December 31, 1998, 1997 and 1996 from AIGTG's operations were $374 million, $562 million and $289 million, respectively.

At December 31, 1998, AIGTG had issued and outstanding $140 million principal amount of letters of credit. These letters of credit were issued primarily to various exchanges.

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, 1998, ILFC had committed to purchase or had secured positions for 303 aircraft deliverable from 1999 through 2006 at an estimated aggregate purchase price of $17.4 billion. ILFC will be required to find customers for any aircraft presently on order and any aircraft to be ordered, and it must arrange financing for portions of the purchase price of such equipment.

(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.

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, 1998 ($2.5 billion gross; $865 million net) are believed to be adequate as these reserves are based on known facts and current law.

11. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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, 1998, 1997 and 1996 follows. The 1998 reserve activity includes Transatlantic.

(in millions)

	1998		1997		1996	
	GROSS	NET	GROSS	NET	GROSS	NET
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 842	$ 195	$ 876	$ 172	$ 744	$ 127
Losses and loss expenses incurred	375	111	238	68	393	103
Losses and loss expenses paid	(253)	(47)	(272)	(45)	(261)	(58)
Reserve for losses and loss expenses at end of year	$ 964	$ 259	$ 842	$ 195	$ 876	$ 172
Environmental:						
Reserve for losses and loss expenses at beginning of year	$ 1,467	$ 593	$ 1,427	$ 571	$ 1,198	$ 380
Losses and loss expenses incurred	285	106	223	85	379	240
Losses and loss expenses paid	(216)	(93)	(183)	(63)	(150)	(49)
Reserve for losses and loss expenses at end of year	$ 1,536	$ 606	$ 1,467	$ 593	$ 1,427	$ 571
Combined:						
Reserve for losses and loss expenses at beginning of year	$ 2,309	$ 788	$ 2,303	$ 743	$ 1,942	$ 507
Losses and loss expenses incurred	660	217	461	153	772	343
Losses and loss expenses paid	(469)	(140)	(455)	(108)	(411)	(107)
Reserve for losses and loss expenses at end of year	$ 2,500	$ 865	$ 2,309	$ 788	$ 2,303	$ 743

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" (FASB 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 of the 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. FASB 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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 policyholder 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. Additionally, AIG follows a policy of minimizing interest rate risks associated with GIAs by entering into swap transactions.

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.

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 payable: 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.

The carrying values and fair values of AIG's financial instruments at December 31, 1998 and December 31, 1997 and the average fair values with respect to derivative positions during 1998 and 1997 were as follows:

(in millions)

	1998			1997		
	CARRYING VALUE	FAIR VALUE	AVERAGE FAIR VALUE	CARRYING VALUE	FAIR VALUE	AVERAGE FAIR VALUE
Fixed maturities	$61,906	$62,881	$ --	$51,566	$52,694	$ --
Equity securities	5,893	5,893	--	5,348	5,348	--
Mortgage loans on real estate, policy and collateral loans	8,247	8,246	--	7,920	7,967	--
Securities available for sale	10,674	10,674	8,855	9,145	9,145	8,653
Trading securities	5,668	5,668	5,682	3,975	3,975	2,905
Spot commodities	476	476	442	460	460	450
Unrealized gain on interest rate and currency swaps, options and forward transactions	9,881	9,881	9,997	7,422	7,422	7,226
Trading assets	6,229	6,229	6,048	6,715	6,715	5,481
Securities purchased under agreements to resell	4,838	4,838	--	4,551	4,551	--
Other invested assets	6,419	6,419	--	4,681	4,681	--
Short-term investments	4,944	4,944	--	3,333	3,333	--
Cash	303	303	--	87	87	--
Policyholders' contract deposits	12,573	12,800	--	10,323	10,433	--
Borrowings under obligations of guaranteed investment agreements	9,188	10,146	--	8,000	8,676	--
Securities sold under agreements to repurchase	4,473	4,473	--	2,706	2,706	--
Trading liabilities	4,664	4,664	4,824	5,366	5,366	4,549
Securities and spot commodities sold but not yet purchased	4,457	4,457	5,614	5,172	5,172	3,648
Unrealized loss on interest rate and currency swaps, options and forward transactions	7,055	7,055	6,805	5,980	5,980	5,270
Deposits due to banks and other depositors	1,242	1,319	--	972	972	--
Commercial paper	4,636	4,636	--	3,375	3,375	--
Notes, bonds, loans and mortgages payable	16,869	17,196	--	13,886	13,960	--

Off-balance sheet financial instruments: Financial instruments which are not currently recognized in the consolidated balance sheet of AIG are principally commitments to extend credit and financial guarantees. The unrecognized fair values of these instruments represent fees currently charged to enter into similar agreements, taking into account the remaining terms of the current agreements and the counterparties' credit standings. No valuation was made as AIG believes it would have to expend excessive costs for the benefits derived.

13. STOCK COMPENSATION PLANS

At December 31, 1998, AIG had two types of stock-based compensation plans. One was a stock option plan; the other, an employee stock purchase plan. AIG applies APB Opinion 25 "Accounting for Stock Issued to Employees" and related Interpretations in accounting for its plans. Accordingly, no compensation costs have been recognized for either plan.

Had compensation costs for these plans been determined consistent with the method of Statement of Financial Accounting Standards No. 123 "Accounting for Awards of Stock Based Compensation to Employees," AIG's net income and earnings per share for the years ended December 31, 1998, 1997 and 1996 would have been reduced to the pro forma amounts as follows:

(in millions, except per share amounts)

	1998	1997	1996
Net income:			
As reported	$ 3,766	$ 3,332	$ 2,897
Pro forma	3,749	3,323	2,892
Earnings per share-diluted:			
As reported	$ 3.57	$ 3.15	$ 2.72
Pro forma	3.55	3.14	2.72

(A) STOCK OPTION PLAN: On December 19, 1991, the AIG Board of Directors adopted a 1991 employee stock option plan (the 1991 Plan), which provided that options to purchase a maximum of 10,125,000 shares of common stock could be granted to officers and other key employees at prices not less than fair market value at the date of grant. Both the 1991 Plan, and the options with respect to 252,870 shares granted thereunder on December 19, 1991, were approved by shareholders at the 1992 Annual Meeting. An amendment to the 1991 Plan, approved by shareholders at the 1997 Annual Meeting, increased the aggregate number of shares available for grant to 17,718,750 shares to assure that adequate shares are available for grant during the remaining term of the 1991 Plan. A second amendment to the 1991 Plan limits the maximum number of shares as to which stock options may be granted to any employee in any one year to 202,500 shares. At December 31, 1998, 9,184,869 shares were reserved for future grants under the amended 1991 Plan. As of March 18, 1992, no further options could be granted under the 1987 employee stock option plan (the 1987 Plan), but outstanding options granted under the 1987 Plan continue in force until exercise or expiration. At December 31, 1998, there were 8,882,557 shares reserved for issuance under these plans.

Under each plan, 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 all options expire 10 years from the date of the grant. As of December 31, 1998, outstanding options granted with respect to 5,762,938 shares qualified for Incentive Stock Option treatment under the Economic Recovery Tax Act of 1981.

Additional information with respect to AIG's plans at December 31, 1998, and changes for the three years then ended, was as follows:

	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Shares Under Option:						
Outstanding at beginning of year	9,310,014	$32.65	9,705,984	$26.12	9,294,103	$21.73
Granted	915,319	87.42	1,115,325	70.52	1,402,650	48.25
Exercised	(1,192,871)	18.33	(1,402,982)	17.41	(887,740)	14.83
Forfeited	(149,905)	46.86	(108,313)	34.73	(103,029)	28.22
Outstanding at end of year	8,882,557	$39.98	9,310,014	$32.65	9,705,984	$26.12
Options exercisable at year-end	6,282,271	$28.38	6,342,378	$23.01	6,531,486	$19.17
Weighted average fair value per share of options granted		$30.67		$26.21		$18.23

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. STOCK COMPENSATION PLANS (continued)

Information about stock options outstanding at December 31, 1998, is summarized as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
$11.58 - 19.11	1,987,821	2.0 years	$14.61	1,987,821	$14.61
23.56 - 30.89	2,691,004	5.0 years	26.36	2,671,978	26.33
32.44 - 44.72	1,037,071	6.9 years	40.85	759,892	40.84
48.72 - 58.17	1,212,551	7.9 years	48.86	601,157	48.79
66.00 - 78.33	1,058,216	8.9 years	70.91	261,423	70.83
80.17 - 98.46	895,894	9.9 years	87.65	--	--
	8,882,557		$39.98	6,282,271	$28.38

The fair values of stock options granted during the years ended December 31, 1998, 1997 and 1996 were $28 million, $29 million and $26 million, respectively. The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model.

The following weighted average assumptions were used for grants in 1998, 1997 and 1996, respectively: dividend yields of 0.24 percent, 0.30 percent and 0.33 percent; expected volatilities of 22.0 percent, 20.0 percent and 20.0 percent; risk-free interest rates of 4.73 percent, 6.03 percent and 6.29 percent and expected terms of 7 years.

(B) EMPLOYEE STOCK PURCHASE PLAN: AIG's 1984 employee stock purchase plan was adopted at its 1984 shareholders' meeting and became effective as of July 1, 1984. Eligible employees could receive privileges to purchase up to an aggregate of 4,429,687 shares of AIG common stock, at a price equal to 85 percent of the fair market value on the date of grant of the purchase privilege. Purchase privileges were granted annually and were 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.

AIG's 1996 employee stock purchase plan was adopted at its 1996 shareholders' meeting and became effective as of July 1, 1996, replacing the 1984 plan. Eligible employees may receive privileges to purchase up to an aggregate of 2,250,000 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 are limited to the number of whole shares that can be purchased by an amount equal to 5 percent of an employee's annual salary or $5,500, whichever is less. Beginning with the January 1, 1998 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. In all other respects, the 1996 plan is identical to the 1984 plan.

There were 104,008 shares and 328,988 shares issued under the 1984 plan at weighted average prices of $35.17 and $29.73 for the years ended December 31, 1997 and 1996, respectively. There were 340,419 shares and 220,627 shares issued under the 1996 plan at weighted average prices of $53.89 and $38.51 for the years ended December 31, 1998 and 1997, 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, 1998, there were 396,285 shares of common stock subscribed to at a weighted average price of $71.63 per share pursuant to grants of privileges under the 1996 plan. There were 1,292,668 shares available for the grant of future purchase privileges under the 1996 plan at December 31, 1998.

The fair values of purchase privileges granted during the years ended December 31, 1998, 1997 and 1996 were $10 million, $4 million and $3 million, respectively. The weighted average fair values per share of those purchase rights granted in 1998, 1997 and 1996 were $19.33, $13.35 and $8.76, respectively. The fair value of each purchase right is estimated on the date of the subscription using the Black-Scholes model.

The following weighted average assumptions were used for grants in 1998, 1997 and 1996, respectively: dividend yields of 0.24 percent, 0.30 percent and 0.37 percent; expected volatilities of 33.0 percent, 26.0 percent and 21.9 percent; risk-free interest rates of 5.26 percent, 5.81 percent and 5.54 percent; and expected terms of 1 year.

14. 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.

AIG's U.S. retirement plan is a qualified, noncontributory, defined benefit plan. All qualified employees, including those of Transatlantic, 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. 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 has adopted a Supplemental Executive Retirement Program (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 retirement plan as a result of Federal limitations on benefits payable thereunder. Currently, the Supplemental Plan is unfunded.

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 and their dependents who were age 65 by May 1, 1989 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 $1 million. The lifetime maximum benefit of the medical plan was increased to $1.5 million effective January 1, 1999. 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 upon age and years of service at retirement. The life insurance benefit varies by age at retirement from $5,000 for retirement at ages 55 through 59 to $15,000 for retirement at ages 65 and over. These plans also benefit Transatlantic's employees.

(b) AIG sponsors a voluntary savings plan for domestic employees, including those of Transatlantic, (a 401(k) plan), which, during the three years ended December 31, 1998, 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 has certain benefits provided to former or 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 long and short-term disability medical and life insurance continuation, short-term disability income continuation and COBRA medical subsidies. The provision for these benefits at December 31, 1998 was $5 million. The incremental expense was insignificant.

NOTES TO FINANCIAL STATEMENTS (continued)

14. EMPLOYEE BENEFITS (continued)

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 amounts are recognized in the accompanying consolidated balance sheet as of December 31, 1998 and 1997:

(in millions)

	PENSION BENEFITS			OTHER BENEFITS		
1998	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	$ 330	$ 363	$ 693	$ 19	$ 70	$ 89
Acquisitions(a)	--	49	49	--	1	1
Service cost	32	33	65	1	2	3
Interest cost	16	29	45	--	5	5
Participant contributions	4	--	4	--	--	--
Actuarial (gain)/loss	21	33	54	(13)	5	(8)
Benefits paid	(18)	(8)	(26)	--	(5)	(5)
Effect of foreign currency fluctuation	42	--	42	--	--	--
Benefit obligation at end of year	$ 427	$ 499	$ 926	$ 7	$ 78	$ 85
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 160	$ 297	$ 457	$ --	$ --	$--
Acquisitions(a)	--	37	37	--	--	--
Actual return on plan assets net of expenses	20	55	75	--	--	--
Employer contributions	24	18	42	--	5	5
Participant contributions	4	--	4	--	--	--
Benefits paid	(18)	(8)	(26)	--	(5)	(5)
Effect of foreign currency fluctuation	18	--	18	--	--	--
Fair value of plan assets at end of year(b)	$ 208	$ 399	$ 607	$ --	$ --	$ --
Reconciliation of funded status:						
Funded status	$(219)	$(100)	$(319)	$ (7)	$ (78)	$ (85)
Unrecognized actuarial (gain)/loss	80	(4)	76	--	16	16
Unrecognized transition (asset)/obligation	13	7	20	--	--	--
Unrecognized prior service cost	13	21	34	--	(21)	(21)
Net amount recognized at year end	$(113)	$ (76)	$(189)	$ (7)	$ (83)	$ (90)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	$ 4	$ --	$ 4	$ --	$ --	$ --
Accrued benefit liability	(175)	(83)	(258)	(7)	(83)	(90)
Intangible asset	58	7	65	--	--	--
Net amount recognized at year end	$(113)	$ (76)	$(189)	$ (7)	$ (83)	$ (90)
Weighted-average assumptions as of December 31,						
Discount rate	3.0-10.0%	6.75%		6.25-7.0%	6.75%	
Expected return on plan assets	3.5-13.0	8.5		N/A	N/A	
Rate of compensation increase	2.0-10.0	5.0		N/A	N/A	

For measurement purposes, a 7.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 1998.

The rate was assumed to decrease gradually to 5.5 percent for 2000 and remain at that level thereafter.

(a) Acquisitions include the opening balances with respect to Transatlantic and 20th Century. Transatlantic's domestic employees are and have been covered by AIG's plans.

(b) Plan assets are invested primarily in fixed-income securities and listed stocks.

14. EMPLOYEE BENEFITS (continued)

(in millions)

1997	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	$ 340	$ 273	$ 613	$ 17	$ 59	$ 76
Service cost	21	23	44	2	1	3
Interest cost	13	21	34	--	4	4
Participant contributions	4	--	4	--	--	--
Plan amendments	--	5	5	--	4	4
Actuarial (gain)/loss	6	47	53	--	6	6
Benefits paid	(12)	(6)	(18)	--	(4)	(4)
Effect of foreign currency fluctuation	(42)	--	(42)	--	--	--
Benefit obligation at end of year	$ 330	$ 363	$ 693	$ 19	$ 70	$ 89
Change in plan assets:						
Fair value of plan assets at beginning of year	$ 171	$ 231	$ 402	$ --	$ --	$ --
Asset adjustment	--	(1)	(1)	--	--	--
Actual return on plan assets net of expenses	--	54	54	--	--	--
Employer contributions	15	19	34	--	--	--
Participant contributions	4	--	4	--	--	--
Benefits paid	(12)	(6)	(18)	--	--	--
Effect of foreign currency fluctuation	(18)	--	(18)	--	--	--
Fair value of plan assets at end of year*	$ 160	$ 297	$ 457	$ --	$ --	$ --
Reconciliation of funded status:						
Funded status	$(170)	$ (66)	$(236)	$ (19)	$ (70)	$ (89)
Unrecognized actuarial (gain)/loss	65	(16)	49	--	11	11
Unrecognized transition (asset)/obligation	12	7	19	--	--	--
Unrecognized prior service cost	14	21	35	--	(22)	(22)
Net amount recognized at year end	$ (79)	$ (54)	$(133)	$ (19)	$ (81)	$(100)
Amounts recognized in the statement of financial position consist of:						
Prepaid benefit cost	$ 6	$ --	$ 6	$ --	$ --	$ --
Accrued benefit liability	(133)	(58)	(191)	(19)	(81)	(100)
Intangible asset	48	4	52	--	--	--
Net amount recognized at year end	$ (79)	$ (54)	$(133)	$ (19)	$ (81)	$(100)
Weighted-average assumptions as of December 31,						
Discount rate	3.5-10.0%	7.0%		7.0-10.0%	7.0%	
Expected return on plan assets	4.0-9.2	9.0		N/A	N/A	
Rate of compensation increase	2.5-10.0	5.0		N/A	N/A	

For measurement purposes, an 8.5 percent annual rate of increase in the per capita cost of covered healthcare benefits was assumed for 1997.

The rate was assumed to decrease gradually to 5.5 percent for 2000 and remain at that level thereafter.

* Plan assets are invested primarily in fixed-income securities and listed stocks.

14. EMPLOYEE BENEFITS (continued)

The net benefit cost for the years ended December 31, 1998, 1997, and 1996 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
1998						
Components of net period benefit cost:						
Service cost	$ 32	$ 33	$ 65	$ 1	$ 2	$ 3
Interest cost	16	29	45	1	5	6
Expected return on assets	(9)	(29)	(38)	--	--	--
Amortization of prior service cost	2	2	4	--	(1)	(1)
Amortization of transitional (asset)/liability	2	1	3	(1)	--	(1)
Recognized actuarial (gain)/loss	3	1	4	--	--	--
Net periodic benefit cost	$ 46	$ 37	$ 83	$ 1	$ 6	$ 7
1997						
Components of net period benefit cost:						
Service cost	$ 21	$ 23	$ 44	$ 1	$ 2	$ 3
Interest cost	13	21	34	1	4	5
Expected return on assets	(9)	(20)	(29)	--	--	--
Amortization of prior service cost	2	2	4	--	(1)	(1)
Amortization of transitional (asset)/liability	2	2	4	--	--	--
Recognized actuarial (gain)/loss	2	--	2	--	--	--
Net periodic benefit cost	$ 31	$ 28	$ 59	$ 2	$ 5	$ 7
1996						
Components of net period benefit cost:						
Service cost	$ 23	$ 21	$ 44	$ 1	$ 1	$ 2
Interest cost	14	18	32	1	4	5
Expected return on assets	(9)	(17)	(26)	--	--	--
Amortization of prior service cost	2	1	3	--	(1)	(1)
Amortization of transitional (asset)/liability	2	2	4	--	--	--
Recognized actuarial (gain)/loss	2	--	2	--	--	--
Net periodic benefit cost	$ 34	$ 25	$ 59	$ 2	$ 4	$ 6

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 $460 million, $394 million and $196 million, respectively, as of December 31, 1998 and $314 million, $268 million and $119 million as of December 31, 1997.

On December 31, 1998, the company 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	$--
Effect on postretirement benefit obligation	4	(3)

15. 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, 1998, the future minimum lease payments under operating leases were as follows:

(in millions)

1999	$ 252
2000	193
2001	151
2002	112
2003	112
Remaining years after 2003	419
Total	$1,239

Rent expense approximated $272 million, $241 million and $219 million for the years ended December 31, 1998, 1997 and 1996, respectively.

15. LEASES (continued)

(b) Minimum future rental income on noncancelable operating leases of flight equipment which have been delivered at December 31, 1998 was as follows:

(in millions)	
1999	$1,589
2000	1,391
2001	1,237
2002	1,055
2003	803
Remaining years after 2003	1,173
Total	$7,248

Flight equipment is leased, under operating leases, for periods ranging from one to 12 years.

16. OWNERSHIP AND TRANSACTIONS WITH RELATED PARTIES

(A) OWNERSHIP: The directors and officers of AIG, the directors and holders of common stock of C.V. Starr & Co., Inc. (Starr), a private holding company, The Starr Foundation, Starr International Company, Inc. (SICO), a private holding company, and Starr own or otherwise control approximately 28 percent of the voting stock of AIG. 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, 1998. Net commission payments to Starr aggregated approximately $46 million in 1998 and 1997 and $48 million in 1996, from which Starr is required to pay commissions due originating brokers and its operating expenses. AIG also received approximately $13 million in 1998, $14 million in 1997 and $15 million in 1996 from Starr and paid approximately $37,000 in 1998 and $35,000 in 1997 and $34,000 in 1996 to Starr in rental fees. AIG also received approximately $1 million in 1998, 1997 and 1996 from SICO and paid approximately $1 million in each of the years 1998, 1997 and 1996 to SICO as reimbursement for services rendered at cost. AIG also paid to SICO $4 million in 1998, 1997 and 1996 in rental fees.

17. SEGMENT INFORMATION

(a) AIG's operations are conducted principally through three 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. 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 100 foreign countries.

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

AIG's Foreign General insurance group accepts risks primarily underwritten through 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. Transatlantic's foreign operations are included in this group.

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

AIG's three principal overseas life operations are 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. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan.

Financial Services - AIG's financial services subsidiaries engage in diversified financial products and services including asset management, premium financing, banking services and consumer finance services.

ILFC engages primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world.

NOTES TO FINANCIAL STATEMENTS (continued)

17. SEGMENT INFORMATION (continued)

AIGFP structures financial transactions, including long-dated interest rate and currency swaps and structures borrowings through notes, bonds and guaranteed investment agreements.

AIGTG engages in various commodities trading, foreign exchange trading, interest rate swaps and market making activities.

(b) The following table summarizes the operations by major operating segment for the years ended December 31, 1998, 1997 and 1996:

	OPERATING SEGMENTS-1998				
(in millions)	GENERAL INSURANCE	LIFE INSURANCE	FINANCIAL SERVICES	OTHER(a)	CONSOLIDATED
Revenues (b)	$ 16,495	$ 13,444	$ 3,305	$ 52	$ 33,296
Interest revenue	--	--	1,225	--	1,225
Interest expense	7	64	1,840	36	1,947
Realized capital gains (losses)	205	(35)	--	(5)	165
Operating income (loss) before minority interest	2,928	1,780	913	(92)	5,529
Income taxes	646	562	317	69	1,594
Equity in income of minority-owned insurance operations	57	--	--	--	57
Depreciation expense	109	63	665	95	932
Capital expenditures	220	277	3,266	142	3,905
Identifiable assets	73,226	64,333	60,113	(3,274)	194,398

	OPERATING SEGMENTS-1997				
(in millions)	GENERAL INSURANCE	LIFE INSURANCE	FINANCIAL SERVICES	OTHER(a)	CONSOLIDATED
Revenues (b)	$ 14,403	$ 12,843	$ 3,272	$ 84	$ 30,602
Interest revenue	--	--	1,009	--	1,009
Interest expense	2	29	1,689	34	1,754
Realized capital gains (losses)	128	21	--	(30)	119
Operating income (loss) before minority interest	2,472	1,571	701	(13)	4,731
Income taxes	514	501	258	94	1,367
Equity in income of minority-owned insurance operations	114	--	--	--	114
Depreciation expense	89	56	654	74	873
Capital expenditures	166	346	3,519	174	4,205
Identifiable assets	62,386	52,104	51,756	(2,275)	163,971

	OPERATING SEGMENTS-1996				
(in millions)	GENERAL INSURANCE	LIFE INSURANCE	FINANCIAL SERVICES	OTHER(a)	CONSOLIDATED
Revenues (b)	$ 13,611	$ 11,689	$ 2,556	$ 87	$ 27,943
Interest revenue	--	--	869	--	869
Interest expense	2	18	1,493	29	1,542
Realized capital gains (losses)	65	35	--	(12)	88
Operating income before minority interest	2,206	1,324	524	2	4,056
Income taxes	456	415	190	55	1,116
Equity in income of minority-owned insurance operations	99	--	--	--	99
Depreciation expense	85	54	593	74	806
Capital expenditures	133	237	3,358	167	3,895
Identifiable assets	58,792	48,376	43,861	(2,598)	148,431

(a) Includes AIG Parent and other operations which are not required to be reported separately, other income (deductions)-net and adjustments and eliminations.
(b) Represents the sum of general net premiums earned, life premium income, net investment income, financial services commissions, transactions and other fees, equity in income of minority-owned insurance operations and realized capital gains (losses).

17. SEGMENT INFORMATION (continued)

(c) The following table summarizes AIG's general insurance operations by major internal reporting group for the years ended December 31, 1998, 1997 and 1996:

	GENERAL INSURANCE-1998			
(in millions)	DOMESTIC BROKERAGE GROUP	FOREIGN GENERAL	OTHER(a)	TOTAL GENERAL INSURANCE
Net premiums written	$ 8,002	$ 4,799	$ 1,785	$ 14,586
Net premiums earned	7,814	4,627	1,657	14,098
Losses & loss expenses incurred	6,862	2,678	1,117	10,657
Underwriting expenses	1,169	1,427	314	2,910
Adjusted underwriting profit (loss) (b)	(217)	522	226	531
Net investment income	1,570	438	184	2,192
Operating income before realized capital gains (c)	1,353	960	410	2,723
Equity in income of minority-owned insurance operations	57	--	--	57
Depreciation expense	34	63	12	109
Capital expenditures	66	110	44	220
Identifiable assets	53,844	16,060	3,322	73,226

	GENERAL INSURANCE-1997			
(in millions)	DOMESTIC BROKERAGE GROUP	FOREIGN GENERAL	OTHER(a)	TOTAL GENERAL INSURANCE
Net premiums written	$ 7,885	$ 4,370	$ 1,153	$ 13,408
Net premiums earned	7,207	4,069	1,145	12,421
Losses & loss expenses incurred	6,268	2,304	784	9,356
Underwriting expenses	1,080	1,268	227	2,575
Adjusted underwriting profit (loss) (b)	(141)	497	134	490
Net investment income	1,356	369	129	1,854
Operating income before realized capital gains (c)	1,215	866	263	2,344
Equity in income of minority-owned insurance operations	114	--	--	114
Depreciation expense	27	57	5	89
Capital expenditures	61	94	11	166
Identifiable assets	46,548	13,405	2,433	62,386

	GENERAL INSURANCE-1996			
(in millions)	DOMESTIC BROKERAGE GROUP	FOREIGN GENERAL	OTHER(a)	TOTAL GENERAL INSURANCE
Net premiums written	$ 7,324	$ 4,325	$ 1,043	$ 12,692
Net premiums earned	6,763	4,033	1,059	11,855
Losses & loss expenses incurred	5,886	2,332	779	8,997
Underwriting expenses	916	1,303	189	2,408
Adjusted underwriting profit (loss) (b)	(39)	398	91	450
Net investment income	1,242	339	110	1,691
Operating income before realized capital gains (c)	1,203	737	201	2,141
Equity in income of minority-owned insurance operations	99	--	--	99
Depreciation expense	27	54	4	85
Capital expenditures	41	86	6	133
Identifiable assets	43,718	13,025	2,049	58,792

(a) Includes other operations which are not required to be reported separately and adjustments and eliminations.
(b) Adjusted underwriting profit (loss) represents statutory underwriting profit or loss adjusted primarily for changes in deferred acquisition costs.
(c) Realized capital gains are not deemed to be an integral part of AIG's general insurance operations' internal reporting groups.

17. SEGMENT INFORMATION (continued)

(d) The following table summarizes AIG's life insurance operations by major reporting group for the years ended December 31, 1998, 1997 and 1996:

(in millions)	LIFE INSURANCE-1998			
	ALICO	AIA AND NAN SHAN	OTHER(a)	TOTAL LIFE INSURANCE
Premium income	$ 3,212	$ 6,052	$ 983	$10,247
Net investment income	1,019	1,189	1,024	3,232
Operating income before realized capital gains(b)	576	1,040	199	1,815
Depreciation expense	31	25	7	63
Capital expenditures	201	64	12	277
Identifiable assets	23,495	23,860	16,978	64,333

(in millions)	LIFE INSURANCE-1997			
	ALICO	AIA AND NAN SHAN	OTHER(a)	TOTAL LIFE INSURANCE
Premium income	$ 2,811	$ 6,278	$ 837	$ 9,926
Net investment income	754	1,188	954	2,896
Operating income before realized capital gains(b)	461	895	194	1,550
Depreciation expense	24	25	7	56
Capital expenditures	197	132	17	346
Identifiable assets	16,745	20,003	15,356	52,104

(in millions)	LIFE INSURANCE-1996			
	ALICO	AIA AND NAN SHAN	OTHER(a)	TOTAL LIFE INSURANCE
Premium income	$ 2,595	$ 5,592	$ 791	$ 8,978
Net investment income	663	979	1,034	2,676
Operating income before realized capital gains(b)	396	731	162	1,289
Depreciation expense	21	24	9	54
Capital expenditures	199	29	9	237
Identifiable assets	14,839	20,474	13,063	48,376

(a) Includes other operations which are not required to be reported separately and adjustments and eliminations.
(b) Realized capital gains are not deemed to be an integral part of AIG's life insurance operations' internal reporting groups.

17. SEGMENT INFORMATION (continued)

(e) The following table summarizes AIG's financial services operations by major reporting group for the years ended December 31, 1998, 1997 and 1996:

	FINANCIAL SERVICES-1998				
(in millions)	ILFC	AIGFP(a)	AIGTG	OTHER(b)	TOTAL FINANCIAL SERVICES
Commissions, transactions and other fees	$ 2,002	$ 550	$ 374	$ 379	$ 3,305
Interest revenue	49	941	74	161	1,225
Interest expense	694	997	59	90	1,840
Operating income (loss)	496	323	123	(29)	913
Depreciation expense	581	6	8	70	665
Capital expenditures	3,160	3	13	90	3,266
Identifiable assets	16,846	28,080	10,526	4,661	60,113

	FINANCIAL SERVICES-1997				
(in millions)	ILFC	AIGFP(a)	AIGTG	OTHER(b)	TOTAL FINANCIAL SERVICES
Commissions, transactions and other fees	$ 1,857	$ 452	$ 562	$ 401	$ 3,272
Interest revenue	41	768	88	112	1,009
Interest expense	691	857	42	99	1,689
Operating income (loss)	382	241	127	(49)	701
Depreciation expense	576	7	6	65	654
Capital expenditures	3,436	5	9	69	3,519
Identifiable assets	15,028	22,941	10,017	3,770	51,756

	FINANCIAL SERVICES-1996				
(in millions)	ILFC	AIGFP(a)	AIGTG	OTHER(b)	TOTAL FINANCIAL SERVICES
Commissions, transactions and other fees	$ 1,560	$ 369	$ 289	$ 338	$ 2,556
Interest revenue	44	675	38	112	869
Interest expense	624	737	26	106	1,493
Operating income (loss)	307	189	80	(52)	524
Depreciation expense	526	9	6	52	593
Capital expenditures	3,254	10	16	78	3,358
Identifiable assets	14,394	20,288	5,115	4,064	43,861

(a) AIGFP's interest revenue and interest expense are reported as net revenues.
(b) Includes other operations which are not required to be reported separately and adjustments and eliminations.

17. SEGMENT INFORMATION (continued)

(f) 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-1998			
(in millions)	DOMESTIC(a)	FAR EAST	OTHER FOREIGN	CONSOLIDATED
Revenues (b)	$15,818	$10,571	$ 6,907	$33,296
Real estate and other fixed assets, net of accumulated depreciation	975	895	781	2,651
Flight equipment primarily under operating leases, net of accumulated depreciation	16,330	--	--	16,330

	GEOGRAPHIC SEGMENTS-1997			
(in millions)	DOMESTIC(a)	FAR EAST	OTHER FOREIGN	CONSOLIDATED
Revenues (b)	$14,141	$11,671	$ 4,790	$30,602
Real estate and other fixed assets, net of accumulated depreciation	867	779	696	2,342
Flight equipment primarily under operating leases, net of accumulated depreciation	14,438	--	--	14,438

	GEOGRAPHIC SEGMENTS-1996			
(in millions)	DOMESTIC(a)	FAR EAST	OTHER FOREIGN	CONSOLIDATED
Revenues (b)	$12,955	$10,691	$ 4,297	$27,943
Real estate and other fixed assets, net of accumulated depreciation	811	748	564	2,123
Flight equipment primarily under operating leases, net of accumulated depreciation	13,809	--	--	13,809

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

18. 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, 1998 and 1997 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)	1998	1997	1998	1997	1998(a)	1997	1998(a)	1997
Revenues	$7,689	$7,189	$8,143	$7,758	$8,399	$7,704	$9,065	$7,951
Net income	887	781	942	826	931	840	1,006	885
Net income per common share:								
Basic	$ 0.84	$ 0.74	$ 0.90	$ 0.78	$ 0.89	$ 0.80	$ 0.96	$ 0.84
Diluted	0.84	0.74	0.89	0.78	0.89	0.79	0.95	0.84
Average shares outstanding:								
Basic	1,049	1,056	1,050	1,053	1,050	1,052	1,050	1,050
Diluted	1,054	1,061	1,055	1,058	1,055	1,057	1,055	1,055

(a) Including the operations of Transatlantic and 20th Century.

19. PRO FORMA FINANCIAL DATA - UNAUDITED

On January 1, 1999, AIG issued 187,543,737 shares of its common stock for all the outstanding common stock of SunAmerica Inc. (based on an exchange ratio of 0.855 shares of AIG common stock for each share of SunAmerica Inc. common stock). Because the merger, which will be accounted for as a pooling of interests, occurred subsequent to December 31, 1998, the historical information presented herein does not give effect to the impact of the merger.

However, the following unaudited pro forma data summarizes the combined results of operations of AIG and SunAmerica Inc. as if the merger had been in effect for all periods presented. SunAmerica Inc. results of operations are based upon a fiscal year ended September 30 for all periods presented.

(in millions, except share amounts)

YEARS ENDED DECEMBER 31,	1998	1997	1996
Revenues	$35,874	$32,687	$29,415
Net income	4,282	3,711	3,172
Earnings per share:			
Basic	$3.51	$3.06	$2.61
Diluted	3.44	3.00	2.56

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, 1998.

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.

PART IV

ITEM 14. 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.

2--Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession.

3--Articles of Incorporation and By-Laws.

4--Instruments Defining the Rights of Security Holders.

10--Material Contracts.

11--Computation of Earnings Per Share for the Years Ended December 31, 1998, 1997, 1996, 1995 and 1994.

12--Computation of Ratios of Earnings to Fixed Charges for the Years Ended December 31, 1998, 1997, 1996, 1995 and 1994.

21--Subsidiaries of Registrant.

23--Consent of PricewaterhouseCoopers LLP.

24--Power of Attorney.

27--Financial Data Schedule.

99--Undertakings.

(b) REPORTS ON FORM 8-K.

During the three months ended December 31, 1998, one Current Report on Form 8-K, dated October 22, 1998, was filed to report AIG's Press Release, dated October 22, 1998, reporting the earnings of AIG for the quarter and nine months ended September 30, 1998.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THE ISSUER 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 DAY OF MARCH, 1999.

AMERICAN INTERNATIONAL GROUP, INC.

By S/S M.R. GREENBERG
(M. R. Greenberg, Chairman)

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 DAY OF MARCH, 1999 AND EACH OF THE UNDERSIGNED PERSONS, IN ANY CAPACITY, HEREBY SEVERALLY CONSTITUTES M.R. GREENBERG, EDWARD E. MATTHEWS 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/S M.R. GREENBERG (M. R. GREENBERG)	Chairman and Director (Principal Executive Officer)
S/S HOWARD I. SMITH (HOWARD I. SMITH)	Executive Vice President, Chief Financial Officer, Comptroller and Director (Principal Financial and Accounting Officer)
S/S M. BERNARD AIDINOFF (M. BERNARD AIDINOFF)	Director
S/S ELI BROAD (ELI BROAD)	Director
S/S PEI-YUAN CHIA (PEI-YUAN CHIA)	Director
S/S MARSHALL A. COHEN (MARSHALL A. COHEN)	Director
S/S BARBER B. CONABLE, JR (BARBER B. CONABLE, JR.)	Director
S/S MARTIN S. FELDSTEIN (MARTIN S. FELDSTEIN)	Director
(ELLEN V. FUTTER)	Director

SIGNATURES- (Continued)

SIGNATURE	TITLE
(LESLIE L. GONDA)	Director
S/S EVAN G. GREENBERG (EVAN G. GREENBERG)	Director
S/S CARLA A. HILLS (CARLA A. HILLS)	Director
S/S FRANK J. HOENEMEYER (FRANK J. HOENEMEYER)	Director
S/S EDWARD E. MATTHEWS (EDWARD E. MATTHEWS)	Director
S/S DEAN P. PHYPERS (DEAN P. PHYPERS)	Director
S/S THOMAS R. TIZZIO (THOMAS R. TIZZIO)	Director
S/S EDMUND S.W. TSE (EDMUND S.W. TSE)	Director
S/S JAY S. WINTROB (JAY S. WINTROB)	Director
S/S FRANK G. WISNER (Frank G. Wisner)	Director

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	Agreement and Plan of Merger, dated as of August 19, 1998, between SunAmerica Inc. and AIG, incorporated herein by reference to Exhibit 2 to AIG's Registration Statement on Form S-4 (File No. 333-65441).
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	Filed herewith.
3(ii)	By-laws of AIG	Filed herewith.
4	Instruments defining the rights of security holders, including indentures	
	(a) Fiscal Agency Agreement dated as of October 1, 1984 between AIG and Citibank, N.A	Not required to be filed.*
	(b) Indenture dated as of July 15, 1989 between AIG and The Bank of New York	Not required to be filed.*
	(c) Subordinated Indenture, dated as of October 28, 1996, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee	Not required to be filed.*
	(d) Senior Indenture, dated as of April 15, 1993, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee	Not required to be filed.*
	(e) Supplemental Indenture, dated as of June 28, 1993, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee, supplementing the Senior Indenture, dated as of April 15, 1993	Not required to be filed.*
	(f) Supplemental Indenture, dated as of October 28, 1996, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee, supplementing the Senior Indenture, dated as of April 15, 1993	Not required to be filed.*
	(g) Third Supplemental Indenture, dated as of January 1, 1999, among SunAmerica Inc., AIG and The First National Bank of Chicago, as Trustee, supplementing the Senior Indenture, dated as of April 15, 1993	Not required to be filed.*
	(h) Junior Subordinated Indenture, dated as of March 15, 1995, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee	Not required to be filed.*
	(i) First Supplemental Indenture, dated as of March 15, 1995, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee, supplementing the Junior Subordinated Indenture, dated as of March 15, 1995	Not required to be filed.*
	(j) Second Supplemental Indenture, dated as of October 11, 1995, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee, supplementing the Junior Subordinated Indenture dated as of March 15, 1995	Not required to be filed.*
	(k) Supplemental Indenture, dated as of October 28, 1996, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee, supplementing the Junior Subordinated Indenture, dated as of March 15, 1995	Not required to be filed.*
	(l) Fourth Supplemental Indenture, dated as of November 13, 1996, between SunAmerica Inc. and The First National Bank of Chicago, as Trustee, supplementing the Junior Subordinated Indenture, dated as of March 15, 1995	Not required to be filed.*
	(m) Fifth Supplemental Indenture, dated as of January 1, 1999, among SunAmerica Inc., AIG and The First National Bank of Chicago, as Trustee, supplementing the Junior Subordinated Indenture, dated as of March 15, 1995	Not required to be filed.*

(n)	Senior Indenture, dated as of November 15, 1991, between SunAmerica Inc. (as successor in interest to Broad Inc.) and Security Pacific National Bank, as Trustee	Not required to be filed.*
(o)	Tri-Party Agreement, dated as of July 1, 1993, among The First National Bank of Chicago, Bank of America, NT & SA and SunAmerica Inc., appointing The First National Bank of Chicago as Successor Trustee to Bank of America NT & SA (as successor in interest to Security Pacific National Bank), amending the Senior Indenture, dated as of November 15, 1991	Not required to be filed.*
(p)	First Supplemental Indenture, dated as of January 1, 1999, among SunAmerica Inc., AIG and The First National Bank of Chicago, as Trustee, supplementing Senior Indenture, dated November 15, 1991	Not required to be filed.*
(q)	Amended and Restated Declaration of Trust of SunAmerica Capital Trust I, dated as of June 6, 1995, among SunAmerica Inc. and the Trustees of the Trust	Not required to be filed.*
(r)	Amended and Restated Declaration of Trust of SunAmerica Capital Trust II, dated as of October 11, 1995, among SunAmerica Inc. and the Trustees of the Trust	Not required to be filed.*
(s)	Amended and Restated Declaration of Trust of SunAmerica Capital Trust III, dated as of November 13, 1996, among SunAmerica Inc. and the Trustees of the Trust	Not required to be filed.*
(t)	Guarantee Agreement, dated as of October 11, 1995, between SunAmerica Inc. and The Bank of New York, as Guaranty Trustee, relating to the Preferred Securities of SunAmerica Capital Trust II..	Not required to be filed.*
(u)	Amendment to Guarantee, dated as of January 1, 1999, among SunAmerica Inc., AIG and The Bank of New York, as Guaranty Trustee, amending Guarantee Agreement, dated as of October 11, 1995, between SunAmerica Inc. and The Bank of New York, as Guaranty Trustee	Not required to be filed.*
(v)	Guarantee Agreement, dated as of November 13, 1996, between SunAmerica Inc. and The Bank of New York, as Guaranty Trustee, relating to the Preferred Securities of SunAmerica Capital Trust III	Not required to be filed.*
(w)	Amendment to Guarantee, dated as of January 1, 1999, among SunAmerica Inc., AIG and The Bank of New York, as Guaranty Trustee, amending Guarantee Agreement, dated November 13, 1996, between SunAmerica Inc. and The Bank of New York, as Guaranty Trustee	Not required to be filed.*

----

* The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of the holders of the Registrant's long-term debt upon request of the Commission.

EXHIBIT NUMBER	DESCRIPTION	LOCATION
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) AIG1996 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.
	(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 as of 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 as of April 4, 1997 (File No. 1-8787) and incorporated herein by reference.
	(j) AIRCO 1972 Employee Stock Option Plan	Incorporated by reference to AIG's Joint Proxy Statement and Prospectus (File No. 2-61994).
	(k) AIRCO 1977 Stock Option and Stock Appreciation Rights Plan	Incorporated by reference to AIG's Joint Proxy Statement and Prospectus (File No.2-61994).
	(l) 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).
	(m) Retention and Employment Agreement between AIG and Jay S. Wintrob	Filed herewith.
	(n) 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).
	(o) 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).
	(p) 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).

- -------------

** All material contracts are management contracts or compensatory plans or arrangements.

EXHIBIT NUMBER	DESCRIPTION	LOCATION
(q)	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).
(r)	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).
(s)	SunAmerica Inc. Long-Term Performance-Based Incentive Plan Amended and Restated 1997	Incorporated by reference to Exhibit 4(e) to AIG's Registration Statement on Form S-8 (File No. 333-70069).
11	Statement re computation of per share earnings	Filed herewith.
12	Statements re computation of ratios	Filed herewith.
13	Annual report to security holders	Not required to be filed.
18	Letter re change in accounting principles	None.
21	Subsidiaries of the Registrant	Filed herewith.
22	Published report regarding matters submitted to vote of security holders	None.
23	Consent of PricewaterhouseCoopers LLP	Filed herewith.
24	Power of attorney	Included on the signature page hereof.
27	Financial Data Schedule	Provided herewith.
99	Undertakings by the Registrant required by Item 17 of Form S-3 and Item 21 of Form S-8, deemed to be incorporated by reference into AIG's Registration Statements on Forms 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 and No. 333-74187)	Filed herewith.

Exhibit 3(i)(c)

CERTIFICATE OF MERGER
of
SUNAMERICA INC.
with and into
AMERICAN INTERNATIONAL GROUP, INC.

Pursuant to Section 252(c) of the General Corporation Law of the State of Delaware, American International Group, Inc., a Delaware corporation, hereby certifies the following information relating to the merger of SunAmerica Inc., a Maryland corporation, with and into American International Group, Inc. (the "Merger"):

1. The name and state of incorporation of each of American International Group, Inc. and SunAmerica Inc. (the "Constituent Corporations") are:

Name	State
American International Group, Inc.	Delaware
SunAmerica Inc.	Maryland

2. The Agreement and Plan of Merger, dated as of August 19, 1998, between SunAmerica Inc. and American International Group, Inc. (the "Merger Agreement"), setting forth the terms and conditions of the Merger, has been approved, adopted, certified, executed and acknowledged by each of the Constituent Corporations in accordance with the provisions of Section 252(c) of the General Corporation Law of the State of Delaware.

3. The name of the surviving corporation is American International Group, Inc.

4. The Certificate of Incorporation of American International Group, Inc. in effect immediately prior to the effective time of the merger shall be the certificate of incorporation of the surviving corporation, without any change, alteration or amendment pursuant to the merger

5. The executed Merger Agreement is on file at the principal place of business of the surviving corporation, which is located at 70 Pine Street, New York, New York 10270.

6. A copy of the Merger Agreement will be furnished by the surviving corporation, on request and without cost, to any stockholder of either of the Constituent Corporations.

7. SunAmerica Inc. is a corporation duly organized and existing under the laws of the State of Maryland having an authorized capital stock consisting of 350,000,000 shares of common stock, par value $1.00 per share, 25,000,000 shares of Nontransferable Class B Stock, par value $1.00 per share, 15,000,000 shares of Transferable Class B Stock, par value $1.00 per share, and 20,000,000 shares of preferred stock, no par value.

8. This Certificate of Merger shall become effective on January 1, 1999 at 3:01 a.m. (New York City time).

IN WITNESS WHEREOF, American International Group, Inc. has caused this Certificate of Merger to be executed as of the 30th day of December, 1998.

AMERICAN INTERNATIONAL GROUP, INC.

By: /s/ Howard I. Smith

Name: Howard I. Smith
Title: Executive Vice President

ATTEST:

By: /s/ Kathleen E. Shannon

Name: Kathleen E. Shannon
Title: Secretary

Exhibit 3(ii)

AMERICAN INTERNATIONAL GROUP, INC.

BY-LAWS

ARTICLE I

Stockholders

Section 1.1. Annual Meetings. An annual meeting of stockholders shall be held for the election of directors at such date, time and place either within or without the State of Delaware as may be designated by the Board of Directors from time to time. Any other proper business may be transacted at the annual meeting.

Section 1.2. Special Meetings. Special meetings of stockholders for any purpose or purposes may be called at any time by the Chairman, a Vice Chairman, if any, the President, if any, the Secretary or the Board of Directors, to be held at such date, time and place either within or without the State of Delaware as may be stated in the notice of the meeting. A special meeting of stockholders shall be called by the Secretary upon the written request, stating the purpose of the meeting, of stockholders who together own of record twenty-five percent of the outstanding shares of each class of stock entitled to vote at such meeting.

Section 1.3. Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of such meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation. No business other than that stated in the notice shall be transacted at any special meeting without the unanimous consent of all the stockholders entitled to vote thereat.

Section 1.4. Adjournments. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken; provided, that if the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting.

Section 1.5. Quorum. At each meeting of stockholders, except where otherwise provided by law or the certificate of incorporation or these by-laws, the holders of a majority of the outstanding shares of each class of stock entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum. In the absence of a quorum, the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided by Section 1.4 of these by-laws until a quorum shall attend. Shares of its own capital stock belonging on the record date for the meeting to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 1.6. Organization. Meetings of stockholders shall be presided over by the Chairman, or in the absence of the Chairman by a Vice Chairman, if any, or in the absence of a Vice Chairman by the President, if any, or in the absence of the President by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary an Assistant Secretary shall so act, or in their absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 1.7. Classes or Series of Stock; Voting Proxies. For purposes of this Article I, two or more classes or series of stock shall be considered a single class if and to the extent that the holders thereof are entitled to vote together as a single class at the meeting. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting shall so determine. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. With respect to other matters, unless otherwise provided by law or by the certificate of incorporation or these by-laws, the affirmative vote of the holders of a majority of the shares of all classes of stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, provided that (except as otherwise required by law or by the certificate of incorporation) the Board of Directors may require a larger vote upon any such matter. Where a separate vote by class is required, the affirmative vote of the holders of a majority of the shares of each class present in person or represented by proxy at the meeting shall be the act of such class, except as otherwise provided by law or by the certificate of incorporation or these by-laws.

Section 1.8. Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of any meeting, nor more than sixty days prior to any other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (2) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board is necessary, shall be the day on which the first written consent is expressed; and (3) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 1.9. List of Stockholders Entitled to Vote. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 1.10. Consent of Stockholders in Lieu of Meeting. Unless otherwise provided in the certificate of incorporation, any action required by law to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

Section 1.11. Advance Notice of Stockholder Nominees for Director and Other Stockholder Proposals. (a) The matters to be considered and brought before any annual or special meeting of stockholders of the Corporation shall be limited to only such matters, including the nomination and election of directors, as shall be brought properly before such meeting in compliance with the procedures set forth in this Section 1.11.

(b) For any matter to be properly brought before any annual meeting of stockholders, the matter must be (i) specified in the notice of annual meeting given by or at the direction of the Board of Directors, (ii) otherwise brought before the annual meeting by or at the direction of the Board of Directors or (iii) brought before the annual meeting in the manner specified in this Section 1.11(b)(x) by a stockholder that holds of record stock of the Corporation entitled to vote at the annual meeting on such matter (including any election of a director) or (y) by a person (a "Nominee Holder") that holds such stock through a nominee or "street name" holder of record of such stock and can demonstrate to the Corporation such indirect ownership of, and such Nominee Holder's entitlement to vote, such stock on such matter. In addition to any other requirements under applicable law, the certificate of incorporation and these by-laws, persons nominated by stockholders for election as directors of the Corporation and any other proposals by stockholders shall be properly brought before an annual meeting of stockholders only if notice of any such matter to be presented by a stockholder at such meeting (a "Stockholder Notice") shall be delivered to the Secretary at the principal executive office of the Corporation not less than ninety nor more than one hundred and twenty days prior to the first anniversary date of the annual meeting for the preceding year; provided, however, that if and only if the annual meeting is not scheduled to be held within a period that commences thirty days before and ends thirty days after such anniversary date (an annual meeting date outside such period being referred to herein as an "Other Meeting Date"), such Stockholder Notice shall be given in the manner provided herein by the later of (i) the close of business on the date ninety days prior to such Other Meeting Date or (ii) the close of business on the tenth day following the date on which such Other Meeting Date is first publicly announced or disclosed. Any stockholder desiring to nominate any person or persons (as the case may be) for election as a director or directors of the Corporation at an annual meeting of stockholders shall deliver, as part of such Stockholder Notice, a statement in writing setting forth the name of the person or persons to be nominated, the number and class of all shares of each class of stock of the Corporation owned of record and beneficially by each such person, as reported to such stockholder by such person, the information regarding each such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission, each such person's signed consent to serve as a director of the Corporation if elected, such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation owned of record and beneficially by such stockholder and, in the case of a Nominee Holder, evidence establishing such Nominee Holder's indirect ownership of stock and entitlement to vote such stock for the election of directors at the annual meeting. Any stockholder who gives a Stockholder Notice of any matter (other than a nomination for director) proposed to be brought before an annual meeting of stockholders shall deliver, as part of such Stockholder Notice, the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation owned of record and beneficially by such stockholder, any material interest of such stockholder in the matter proposed (other than as a stockholder), if applicable, and, in the case of a Nominee Holder, evidence establishing such Nominee Holder's indirect ownership of stock and entitlement to vote such stock on the matter proposed at the annual meeting. As used in these by-laws, shares "beneficially owned" shall mean all shares which such person is deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934 (the "Exchange Act"). If a stockholder is entitled to vote only for a specific class or category of directors at a meeting (annual or special), such stockholder's right to nominate one or more individuals for election as a director at the meeting shall be limited to such class or category of directors.

Notwithstanding any provision of this Section 1.11 to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation at the next annual meeting of stockholders is increased by virtue of an increase in the size of the Board of Directors and either all of the nominees for director at the next annual meeting of stockholders or the size of the increased Board of Directors is not publicly announced or disclosed by the Corporation at least one hundred days prior to the first anniversary of the preceding year's annual meeting, a Stockholder Notice shall also be considered timely hereunder, but only with respect to nominees to stand for election at the next annual meeting as the result of any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the tenth day following the first day on which all such nominees or the size of the increased Board of Directors shall have been publicly announced or disclosed.

(c) Except as provided in the immediately following sentence, no matter shall be properly brought before a special meeting of stockholders unless such matter shall have been brought before the meeting pursuant to the Corporation's notice of such meeting. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any stockholder entitled to vote for the election of such director(s) at such meeting may nominate a person or persons (as the case may be) for election to such position(s) as are specified in the Corporation's notice of such meeting, but only if the Stockholder Notice required by Section 1.11(b) hereof shall be delivered to the Secretary at the principal executive office of the Corporation not later than the close of business on the tenth day following the first day on which the date of the special meeting and either the names of all nominees proposed by the Board of Directors to be elected at such meeting or the number of directors to be elected shall have been publicly announced or disclosed.

(d) For purposes of this Section 1.11, a matter shall be deemed to have been "publicly announced or disclosed" if such matter is disclosed in a press release reported by the Dow Jones News Service, the Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission.

(e) In no event shall the adjournment of an annual meeting or a special meeting, or any announcement thereof, commence a new period for the giving of notice as provided in this Section 1.11. This Section 1.11 shall not apply to (i) any stockholder proposal made pursuant to Rule 14a-8 under the Exchange Act or (ii) any nomination of a director in an election in which only the holders of one or more series of Preferred Stock of the Corporation issued pursuant to Article FOUR of the certificate of incorporation are entitled to vote (unless otherwise provided in the terms of such stock).

(f) The chairman of any meeting of stockholders, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall have the power and duty to determine whether notice of nominees and other matters proposed to be brought before a meeting has been duly given in the manner provided in this Section 1.11 and, if not so given, shall direct and declare at the meeting that such nominees and other matters shall not be considered.

Section 1.12. Approval of Stockholder Proposals. Except as otherwise required by law, any matter (other than a nomination for director) that has been properly brought before an annual or special meeting of stockholders of the Corporation by a stockholder (including a Nominee Holder) in compliance with the procedures set forth in Section 1.11 shall require for approval thereof the affirmative vote of the holders of not less than a majority of all outstanding shares of Common Stock of the Corporation and all other outstanding shares of stock of the Corporation entitled to vote on such matter, with such outstanding shares of Common Stock and other stock considered for this purpose as a single class. Any vote of stockholders required by this Section 1.12 shall be in addition to any other vote of stockholders of the Corporation that may be required by law, the certificate of incorporation or these by-laws, by any agreement with a national securities exchange or otherwise.

ARTICLE II

Board of Directors

Section 2.1. Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation. The Board shall consist of not less than seven nor more than 21 members, the number thereof to be determined from time to time by the Board; provided, however, that in determining the number of directors no account shall be taken of any non-voting director, including any advisory or honorary director, that may be elected from time to time by a majority of the Board of Directors. The number of directors may be increased by amendment of these by-laws by the affirmative vote of a majority of the directors then in office, although less than a quorum, or by the affirmative vote of the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon, and by like vote the additional directors may be elected to hold office until the next succeeding annual meeting of stockholders and until their respective successors are elected and qualified or until their respective earlier resignations or removals. Directors need not be stockholders.

Section 2.2. Election; Term of Office; Resignation; Removal; Vacancies. Each director shall hold office until the annual meeting of stockholders next succeeding his or her election and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any director may resign at any time upon written notice to the Board of Directors or to the Chairman or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and no acceptance of such resignation shall be necessary to make it effective. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors; and any vacancy so created may be filled by the holders of a majority of the shares then entitled to vote at an election of directors. Whenever the holders of any class or series of stock are entitled to elect one or more directors by the provisions of the certificate of incorporation, the provisions of the preceding sentence shall apply, in respect to the removal without cause of a director or directors so elected, to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole. Unless otherwise provided in the certificate of incorporation or these by-laws, vacancies (other than any vacancy created by removal of a director by shareholder vote) and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class or from any other cause may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may, unless otherwise provided in the certificate of incorporation, be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by the sole remaining director so elected.

Section 2.3. Regular Meetings. Regular meetings of the Board of Directors may be held at such places within or without the State of Delaware and at such times as the Board may from time to time determine, and if so determined notice thereof need not be given.

Section 2.4. Special Meetings. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the Chairman or by the Secretary on the written request of any two directors. Reasonable notice thereof shall be given by the person calling the meeting.

Section 2.5. Participation in Meetings by Conference Telephone Permitted. Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this by-law shall constitute presence in person at such meeting.

Section 2.6. Quorum; Vote Required for Action. At all meetings of the Board of Directors a majority of the entire Board shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board unless the certificate of incorporation or these by-laws shall require a vote of a greater number. In case at any meeting of the Board a quorum shall not be present, a majority of the members of the Board present may adjourn the meeting from time to time until a quorum shall attend, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which adjournment is taken.

Section 2.7. Organization. Meetings of the Board of Directors shall be presided over by the Chairman, or in the absence of the Chairman by a Vice Chairman, if any, or in the absence of a Vice Chairman by the President, if any, or in their absence by a chairman chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 2.8. Action by Directors Without a Meeting. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 2.9. Compensation of Directors. The Board of Directors shall have the authority to fix the compensation of directors.

ARTICLE III

Committees

Section 3.1. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent permitted by applicable law and provided in the resolution of the Board or in these by-laws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the Board of Directors. The committees shall keep regular minutes of their proceedings and report the same to the Board of Directors when required. If the committee is for the purpose of managing the business of a division of the Corporation, at the option of the Board of Directors and provided that two directors serve on such committee, one or more of the members of the committee may be an officer or officers or employee or employees of the Corporation or a subsidiary thereof who are not directors, provided further that neither the quorum nor any action of the committee shall be determined by the presence or vote of any such member who is not a director.

The Executive Committee, if one shall be designated, to the extent permitted by applicable law shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Except as otherwise provided from time to time in resolutions passed by a majority of the whole Board of Directors, the powers and authority of the Executive Committee shall include the power and authority to declare a dividend on stock, to authorize the issuance of stock and to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law.

The Audit Committee, if one shall be designated, shall be composed of at least three directors, all of whom shall be persons who are not officers or employees of the Corporation or any of its parents or affiliates. Such Committee shall have the duty to advise the Board of Directors and the officers generally in matters relating to audits of the records of account of the Corporation and its subsidiaries. Such Committee shall recommend to the Board of Directors the nomination of the independent public accountants for the ensuing fiscal year, shall meet from time to time with the independent public accountants to review the scope of any proposed audit and to review the financial statements of the Corporation and its subsidiaries and the public accountants' certificate relating thereto, and may also meet with such internal auditors as may be employed by the Corporation or its subsidiaries.

The Finance Committee, if one shall be designated, shall direct the financial and investment policy of the Corporation. Subject to the control of the Board of Directors, it shall have power to invest and reinvest the assets of the Corporation in such securities or other property as it may elect and to change such investments at such time or times as it may deem proper, all subject to the requirements of law, and to assist, counsel and advise the Finance and Investment Committees of the Corporation's subsidiaries. All action taken by the Finance Committee shall be reported to the Board at its meeting next succeeding such action.

Section 3.2. Committee Rules. Unless the Board of Directors otherwise provides, each committee designated by the Board may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board or a provision in the rules of such committee to the contrary, a majority of the members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article II of these by-laws.

ARTICLE IV

Officers

Section 4.1. Officers; Election. As soon as practicable after the annual meeting of stockholders in each year, the Board of Directors shall elect a Chairman and a Secretary, and it may, if it so determines, elect one or more Vice Chairman and a President. The Board may also elect one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as the Board may deem desirable or appropriate and may give any of them such further designations or alternate titles as it considers desirable. Any number of offices may be held by the same person.

Section 4.2. Term of Office; Resignation; Removal; Vacancies. Except as otherwise provided in the resolution of the Board of Directors electing any officer each officer shall hold office until the first meeting of the Board after the annual meeting of stockholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board or to the Chairman or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and no acceptance of such resignation shall be necessary to make it effective. The Board may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board at any regular or special meeting.

Section 4.3. Chairman. The Chairman shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present. The Chairman shall be the chief executive officer and shall have general charge and supervision of the business of the Corporation and, in general, shall perform all duties incident to the office of chairman of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

Section 4.4. Vice Chairman. In the absence of the Chairman, a Vice Chairman, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present and shall have and may exercise such powers as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

Section 4.5. President. In the absence of the Chairman and a Vice Chairman, the President, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present and shall have and may exercise such powers as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

Section 4.6. Vice Presidents. The Vice President or Vice Presidents, at the request or in the absence of the President or during the President's inability to act, shall perform the duties of the President, and when so acting shall have the powers of the President. Vice Presidents include all Executive Vice Presidents and Senior Vice Presidents. If there be more than one Vice President, the Board of Directors may determine which one or more of the Vice Presidents shall perform any of such duties; or if such determination is not made by the Board, the Chairman may make such determination; otherwise any of the Vice Presidents may perform any of such duties. The Vice President or Vice Presidents shall have such other powers and shall perform such other duties as may, from time to time, be assigned to him or her or them by the Board or the Chairman or as may be provided by law.

Section 4.7. Secretary. The Secretary shall have the duty to record the proceedings of the meetings of the stockholders, the Board of Directors and any committees in a book to be kept for that purpose, shall see that all notices are duly given in accordance with the provisions of these by-laws or as required by law, shall be custodian of the records of the Corporation, may affix the corporate seal to any document the execution of which, on behalf of the Corporation, is duly authorized, and when so affixed may attest the same, and, in general, shall perform all duties incident to the office of secretary of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or the Chairman or as may be provided by law.

Section 4.8. Treasurer. The Treasurer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation and shall deposit or cause to be deposited, in the name of the Corporation, all moneys or other valuable effects in such banks, trust companies or other depositories as shall, from time to time, be selected by or under authority of the Board of Directors. If required by the Board, the Treasurer shall give a bond for the faithful discharge of his or her duties, with such surety or sureties as the Board may determine. The Treasurer shall keep or cause to be kept full and accurate records of all receipts and disbursements in books of the Corporation, shall render to the Chairman and to the Board, whenever requested, an account of the financial condition of the Corporation, and, in general, shall perform all the duties incident to the office of treasurer of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or the Chairman or as may be provided by law.

Section 4.9. Other Officers. The other officers, if any, of the Corporation, including any Assistant Vice Presidents, shall have such powers and duties in the management of the Corporation as shall be stated in a resolution of the Board of Directors which is not inconsistent with these by-laws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board. The Board may require any officer, agent or employee to give security for the faithful performance of his or her duties.

ARTICLE V

Stock

Section 5.1. Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman or a Vice Chairman, if any, or the President, if any, or a Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, certifying the number of shares owned by such holder in the Corporation. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 5.2. Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

ARTICLE VI

Miscellaneous

Section 6.1. Fiscal Year. The fiscal year of the Corporation shall be the calendar year.

Section 6.2. Seal. The Corporation may have a corporate seal which shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 6.3. Waiver of Notice of Meetings of Stockholders, Directors and Committees. Whenever notice is required to be given by law or under any provision of the certificate of incorporation or these by-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice unless so required by the certificate of incorporation or these by-laws.

Section 6.4. Indemnification of Directors, Officers and Employees. The Corporation shall indemnify to the full extent authorized by law any person made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person or such person's testator or intestate is or was a director, officer or employee of the Corporation or serves or served at the request of the Corporation any other enterprise as a director, officer, employee or agent. For purposes of this by-law, the term "Corporation" shall include any predecessor of the Corporation and any constituent corporation (including any constituent of a constituent) absorbed by the Corporation in a consolidation or merger: the term "other enterprise" shall include any corporation, partnership, joint venture, trust or employee benefit plan; service "at the request of the Corporation" shall include service as a director, officer or employee of the Corporation which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants or beneficiaries; any excise taxes assessed on a person with respect to an employee benefit plan shall be deemed to be indemnifiable expenses; and action by a person with respect to an employee benefit plan which such person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Corporation.

Section 6.5. Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose,if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

Section 6.6. Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 6.7. Dividends. Subject to the provisions of the certificate of incorporation, the Board of Directors may, out of funds legally available therefor at any regular or special meeting, declare dividends upon the capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, the Board may cause to be set apart out of any funds of the Corporation available for dividends, such sum or sums as the directors from time to time in their discretion deem proper for working capital or as a reserve fund to meet contingencies or for equalizing dividends or for such other purposes as the directors shall deem conducive to the interests of the Corporation.

Section 6.8. Checks. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents of the Corporation, and in such manner as shall be determined from time to time by resolution of the Board of Directors.

Section 6.9. Amendment of By-Laws. These by-laws may be amended or repealed, and new by-laws adopted, by the affirmative vote of a majority of the Board of Directors, but the holders of a majority of the shares then entitled to vote may adopt additional by-laws and may amend or repeal any by-law whether or not adopted by them.

Exhibit 10(m)

RETENTION AND EMPLOYMENT AGREEMENT

AGREEMENT by and among SunAmerica Inc., a Maryland corporation (the "Company"), and Jay Wintrob (the "Executive"), dated as of the 2lst day of December, 1998.

1. Employment Period. Subject to the consummation of the transactions contemplated by the Agreement and Plan of Merger (the "Merger Agreement") dated as of August 19, 1998 between the Company and American International Group, Inc., a Delaware corporation ("AIG"), the Company hereby agrees to continue to employ the Executive, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the closing date of the transactions contemplated by the Merger Agreement (the "Commencement Date") and ending on the third anniversary thereof (the "Employment Period").

2. Terms of Employment. (a) Position and Duties. (i) During the Employment Period, the Executive shall be based at the location set forth on Exhibit A attached hereto, and shall have a title and responsibilities no less significant than those set forth on Exhibit A.

(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 full attention and time during normal business hours to the business and affairs of the Company and to use the Executive's reasonable best efforts to perform such responsibilities in a professional manner in accordance with the Company's written policies regarding professional and ethical conduct. Subject to prior approval to the extent required in accordance with Company Policy 1OOOA, it shall not be a violation of this Agreement for the executive to serve on corporate, civic or charitable boards or committees, or manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.

(b) Compensation. (i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary (the "Annual Base Salary") of not less than the annual base salary in effect with respect to the Executive immediately prior to the Commencement Date. The Annual Base Salary shall be paid no less frequently than in equal monthly installments.

(ii) Annual Bonus. During the Employment Period, the Executive shall be entitled to participate in all bonus and incentive compensation plans, practices, policies and programs (the "Compensation Plans") available generally to other peer executives of the Company and its affiliated companies. For purposes of this Agreement, the phrase "peer executives of the Company and its affiliated companies" shall mean those officers of SunAmerica Inc. and its affiliated companies and, following the Commencement Date, those officers of the subsidiaries and business units of AIG that continue the business operations of SunAmerica Inc. and its affiliated companies, that have a level of title, duties and responsibilities comparable to the Executive. Such Compensation Plans shall provide the Executive with the opportunity under reasonable expectations of Company performance to earn annually an amount of cash bonus and incentive compensation at least equal, in the aggregate, to the average annual cash bonus and incentive compensation earned by the Executive (including any portions thereof deferred into the SunAmerica Inc. Executive Savings Plan (the "ESP") or applied to reimburse the Company for an earlier advance) with respect to the Company's two full fiscal years immediately preceding the Commencement Date.

(iii) Retention Bonus. Subject to the provisions of Section 4(a), on the third anniversary of the Commencement Date, the Executive shall be entitled to a cash bonus in the amount set forth on Exhibit A hereto (the "Retention Bonus"), provided that the Executive has been continuously employed by the Company and/or any of its affiliates from the Commencement Date through the third anniversary of the Commencement Date. The Retention Bonus will be paid to the Executive within 10 business days after the third anniversary of the Commencement Date unless, prior to the second anniversary of the Commencement Date, the Executive elects to have such Retention Bonus deferred and paid in one or more periodic installments in accordance with the ESP (or a successor plan) or deferred on such other terms as may be agreed to by the Company and the Executive.

(iv) Savings, Retirement and Incentive Plans. During the Employment Period, the Executive shall be eligible to participate in the Company's savings, retirement and incentive plans, practices, policies and programs in which the Executive participated immediately prior to the Commencement Date and, if such plans, practices, policies, and programs are not continued, in all savings, retirement and incentive plans, practices, policies and programs to the extent applicable to other peer executives of the Company and its affiliates; provided that, in all circumstances, the cash and equity-based incentive awards and rights granted to the Executive prior to the Commencement Date, as listed on Exhibit B hereto, shall continue to be honored and shall remain outstanding, notwithstanding any prior termination or suspension of the applicable Company plan pursuant to which they were awarded. During the period from the Commencement Date through the first anniversary thereof, the benefits provided to the Executive under such plans, practices, policies and programs will be substantially similar in the aggregate to those currently provided by the Company to the Executive (except with respect to additional awards following the Commencement Date under plans involving the issuance of shares). For purposes of all such plans, the Executive shall receive full credit for all service with the company prior to the Commencement Date for purposes of eligibility to participate and receive benefits and vesting, but not for benefit accruals or the amount or level of employer contributions in any AIG retirement plan.

(v) Welfare and Other Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare, fringe, vacation and other similar benefit plans, practices, policies and programs in effect with respect to peer executives of the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) on the same basis as peer executives of the Company and its affiliated companies. During the period from the Commencement Date through the first anniversary thereof, the benefits provided to the Executive under such plans, practices, policies and programs will be substantially similar in the aggregate to those currently provided by the Company to the Executive. For purposes of all such plans, the Executive shall receive full credit for all service with the Company prior to the Commencement Date for all purposes, except for benefit levels or amounts under any AIG welfare benefit plans. With respect to welfare benefit plans, any preexisting condition exclusions and eligibility waiting periods thereunder shall be waived with respect to the Executive and the Executive's eligible dependents and any covered expenses incurred on or before the Commencement Date shall be taken into account for purposes of satisfying applicable deductibles and annual out-of-pocket limits after the Commencement Date.

(vi) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable business expenses incurred by the Executive, in accordance with the policies of the Company.

(vii) Indemnity. The Executive shall be indemnified by the Company against claims arising in connection with the Executive's status as an employee, officer, director or agent of the Company or any of its affiliates in accordance with the Company's indemnity policies for its senior executives.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to annual vacation at least equal to the number of weeks of paid vacation per year that the Executive was entitled to immediately prior to the Commencement Date.

(ix) Perquisites. During the Employment Period, the Executive will receive perquisites no less favorable than those received by peer executives of the Company and its affiliates.

3. 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 determines in good faith that the Executive has suffered a Disability 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 120 consecutive days (or, if longer, the period required for coverage under the Company's long-term disability plan under which the Executive is covered) as a result of incapacity due to mental or physical illness or injury.

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement. "Cause" shall mean:

(i) gross misconduct by the Executive intending to cause damage to the Company, or (ii) a material breach by Executive of this Agreement, which is not remedied within

30 days after receipt of written notice from the Company delivered to the Executive within 90 days after the Company first became aware of such claimed act or breach describing such claimed act or breach and setting forth the Company's intention to terminate the employment of the Executive if such breach is not remedied. No breach, act or failure to act on the Executive's part shall constitute "Cause" if such breach, act or failure to act resulted from the Executive's incapacity due to physical or mental illness or injury or a resignation by the Executive for Good Reason.

(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 of this Agreement, which is not remedied within 30 days after receipt of written notice from the Executive delivered to the Company within 90 days after the Executive first became aware of such claimed breach describing such claimed breach and setting forth the Executive's intention to terminate his employment if such breach is not remedied, including (i) any action or failure to act by the Company which results in the Executive's position, authority or duties being reduced in any material respect below the level specified in Section 2(a)(i) and Exhibit A of this Agreement, (ii) any failure by the Company to comply in any material respect with the provisions of Section 2(b) of this Agreement, (iii) relocation of the Executive's principal place of employment to any location that is more than 50 miles from the location specified in Section 2(a)(i) and Exhibit A of this Agreement, (iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement, or (v) the failure of the Company to obtain an agreement reasonably satisfactory to the Executive from any successor to assume and agree to perform this Agreement, as contemplated in Section 8 hereof or, if the business for which the Executive's services are principally performed is sold or transferred, the failure of the Company to obtain such an agreement from the purchaser or transferee of such business.

(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) specifies the termination date (which date shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Company 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 or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date that is one day after the last day of the cure period, to the extent applicable, or such later date set forth in the Notice of Termination, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, or the Executive resigns without Good Reason, the Date of Termination shall be the date on which the Company or the Executive notifies the Executive or the Company, respectively, 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.

4. Obligations of the Company upon Termination. (a) Good Reason; Other Than for Cause. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause, including by reason of the Executive's 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 sum of (1) the Executive's Annual Base Salary through the Date of Termination, (2) the product of (x) an amount equal to the average annual cash bonus and incentive compensation earned by the Executive (including any portions thereof deferred into the ESP or applied to reimburse the Company for an earlier advance) with respect to the Company's two full fiscal years immediately preceding the Commencement Date and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365, and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon), unless the Executive has previously instructed the Company to pay such deferred amounts in a lump sum or in periodic installments in accordance with the terms of a previous deferral election, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2) and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

(ii) the Company shall pay to the Executive in a lump sum in cash within 30 days of the Date of Termination an amount equal to the Retention Bonus to the extent not theretofore paid; and

(iii) for the 15-month period following the Date of Termination, the Executive shall continue to be provided with the benefits and rights described in Section 2(b)(iv) and shall be deemed to be employed by the Company for purposes of all benefits and rights described therein, provided that the Executive shall not be entitled to additional awards under any of the Company's incentive plans and shall cease to accrue additional benefits (other than earnings on amounts maintained in the Company's 401(k) and deferred compensation plans in accordance with their terms) under any qualified and nonqualified retirement plans; and

(iv) for the 12-month period following the Date of Termination, the Executive and the Executive's dependents shall continue to be eligible to participate in the medical, dental, health, life and other welfare benefit plans and arrangements applicable to the Executive immediately prior to the Date of Termination on the same terms and conditions (including the amount of the Executive's required contributory premium payments) in effect for the Executive and the Executive's dependents immediately prior to the Date of Termination; and

(v) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is entitled to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies, including, without limitation, benefits under outstanding awards (as set forth in Exhibit B hereto) granted to the Executive, but excluding any broad-based severance plan or policy (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits").

(b) Cause; Other than for Good Reason. If the Executive's employment shall be terminated for Cause or the Executive terminates employment without Good Reason during the Employment Period, the Company shall (x) pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the Accrued Obligations less the amount determined under Section 4(a)(i)(2), and (y) timely pay or provide to the Executive the Other Benefits, in each case to the extent theretofore unpaid.

(c) Release. If the Executive's employment shall terminate during the Employment Period, the Executive agrees, upon payment to the Executive of all amounts due under Section 4(a) or 4(b), as applicable, to execute a release of claims in the form of Exhibit C hereto.

5. Binding Arbitration. Any controversy or claim arising out of or relating to this Agreement (including any claims relating to employment or the termination of employment, whether arising under federal, state or local law and whether in contract or in tort and including any discrimination or common law claims, but excluding workers' compensation and unemployment insurance) shall at the request of either party be determined by arbitration. The arbitration shall be conducted in Los Angeles, California, in accordance with the United States Arbitration Act (Title 9, United States Code), notwithstanding any choice of law provision in this Agreement, and under the rules of the American Arbitration Association. The dispute shall be submitted to a single arbitrator to be mutually agreed upon by the parties. If the parties cannot agree on a single arbitrator, each party shall appoint one arbitrator who shall then jointly appoint a single arbitrator. The arbitrator shall give effect to applicable statutes of limitations. Any controversy concerning whether an issue is arbitrable shall be determined by the arbitrator. Judgment upon the arbitration award may be entered in any court having jurisdiction. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief. The Company agrees to pay for the costs of arbitration and shall reimburse the Executive for his reasonable attorneys' fees, provided the Executive prevails on at least one material issue in the arbitration.

6. Confidential Information/Nonsolicitation. (a) The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive's employment by the Company or any of its 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, the Executive shall not, without the prior written consent of the Company 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 and those designated by it or to an attorney retained by the Executive.

(b) While employed by the Company or any of its affiliates and for one year after the Executive's termination of employment, the Executive will not, directly or indirectly, on behalf of the Executive or any other person, (i) solicit for employment by other than the Company any person employed by the Company or its affiliates (or any independent contractor involved in the sale or manufacture of products sold or manufactured by the Company or any of its affiliates) at the Commencement Date, nor will the Executive, directly or indirectly, on behalf of the Executive or any other person, solicit for employment by other than the Company any person known by the Executive to be employed (or to be an independent contractor involved in the sale or manufacture of products sold or manufactured by the Company or any of its affiliates) at the time by the Company or its affiliates; (ii) make any public statement concerning the Company, any of its affiliates or subsidiaries, or Executive's employment unless previously approved by the Company, except as may be required by law or legal process; (iii) induce, attempt to induce or knowingly encourage any Customer (as defined below) to divert any business or income from the Company or any of its affiliates or to stop or alter the manner in which they are then doing business with the Company or any of its affiliates; or (iv) induce, attempt to induce or knowingly encourage, directly or through an intermediary such as a registered representative, insurance agent or a broker-dealer firm, any contractholder, shareholder or client, as the case may be, to cancel, surrender, lapse or not renew any insurance or annuity policy, mutual fund shares or trust services offered by a subsidiary of the Company. The term "Customer" shall mean any individual or business firm that was or is a customer or client of, or one that was or is a party in a selling agreement with, or whose business was actively solicited by, the Company or any of its affiliates at any time, regardless of whether such customer was generated, in whole or in part, by Executive's efforts.

(c) The provisions of this Section 6 shall remain in full force and effect as specified herein notwithstanding the earlier termination of the Executive's employment hereunder.

7. Specific Performance. The Executive acknowledges that a violation on his part of any of the covenants contained in Section 6 hereof would cause immeasurable and irreparable damage to the Company and that damages would be inadequate and insufficient. Accordingly, the Executive agrees that the Company shall be entitled to injunctive relief in any court of competent jurisdiction for any actual or threatened violation of any such covenant in addition to any other remedies it may have. The Executive agrees that in the event that any arbitrator or court of competent jurisdiction shall finally hold that any provision of Section 6 hereof is void or constitutes an unreasonable restriction against the Executive, the provisions of such Section 6 shall not be rendered void but shall apply to such extent as such arbitrator or court may determine constitutes a reasonable restriction under the circumstances.

8. Successors. (a) This Agreement is personal to the Executive and without the prior written consent of the Company 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 its successors and assigns.

(c) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company, or any business of the Company for which the Executive's services are principally performed, to assume expressly and agree to perform this Agreement. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes this Agreement by operation of law, or otherwise. As used herein, the terms "affiliates" and "affiliated companies" shall mean any company controlled by, controlling or under common control with the Company; and the term "Agreement" shall mean this Retention and Employment Agreement and the Exhibits hereto, which are incorporated herein and made a part hereof.

9. Indemnification by the Company. (a) Based on the information and calculations supplied by the Company and its advisors, the Company and the Executive believe that no excise tax will be imposed under Section 4999 of the Code on any payments, distributions or other items included or includable in income from the Company to or for the benefit of the Executive. However, as a result of the uncertainty of the application of Section 4999, and subject to the Company's rights under Section 9(b) hereof, if it shall be determined that any such payment, distribution or other item included or includable in income from the Company to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 9) (a "Payment") is or will be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall indemnify the Executive against and hold the Executive harmless, on an after-tax basis, from such Excise Tax and shall promptly pay to the Executive an amount in cash (the "Indemnification Payment") such that after payment by the Executive of all taxes (including any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Indemnification Payment, the Executive retains an amount of the Indemnification Payment equal to the Excise Tax imposed upon the Payments.

(b) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Executive of the Excise Tax and, as a result, payment by the Company of the Indemnification Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he or she gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

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

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

(iv) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. The Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Indemnification Payment would be payable hereunder and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(c) If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(b), the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall (subject to the Company's complying with the requirements of Section 9(b)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(b), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall be considered to be a portion of the Indemnification Payment required to be paid.

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. The provisions of Sections 2(b)(vii), 4, 5, 6, 7, 8, 9 and this Section 10 shall survive, and remain in full force and effect following, any termination of the Executive's employment hereunder; and notwithstanding the earlier expiration or termination of this Agreement or anything contained herein to the contrary, the provisions of Sections 2(b)(vii) and 9 hereof shall remain in full force and effect until the day following the expiration of the statute of limitations applicable thereto. This Agreement shall be rendered null and void if, prior to the Closing, the Merger Agreement is terminated and the merger between the Company and AIG is abandoned pursuant to Article VIII of the Merger Agreement.

(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:	Jay Wintrob SunAmerica Inc. 1 SunAmerica Center Los Angeles, California 90067-6022
If to the Company:	SunAmerica Inc. 1 SunAmerica Center Los Angeles, California 90067-6022 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) In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and, such amounts shall not be reduced whether or not the Executive obtains other employment. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

(d) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(e) The Company 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.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Jay Wintrob

JAY WINTROB

SUNAMERICA INC.

By /s/ Eli Broad

Exhibit A:

Name:	Wintrob, Jay
Title:	Vice Chairman and Chief Operating Officer, SAI & President, SunAmerica Investments and/or other title(s) assigned by Eli Broad.
Responsibilities:	Comparable to current duties at SAI, and/or other duties assigned by Eli Broad.
Location:	1 SunAmerica Center, Los Angeles, CA 90067
Retention Bonus:	$5,000,000

EXHIBIT B

Executive's Outstanding Awards

Executive has been granted the stock options listed on Schedule B-1, and the shares of restricted stock, the super share award(s) and the cash bonus award listed on Schedule B-2 (together, "Awards").

The closing of the transactions contemplated by the Merger Agreement (the "Closing") constitutes a Change of Ownership under the Company's 1988 Employee Stock Option Plan, 1997 Employee Incentive Stock Plan, and Long-Term Incentive Plan (the "Award Plans"). At the time of Closing, each unvested stock option shall vest and become fully exercisable, and shall remain exercisable thereafter through the expiration date or earlier cancellation of such stock option, and all restrictions on shares of restricted stock (not including "super shares") and on Executive's cash bonus award shall lapse (notwithstanding information set forth on the attached Schedules regarding the dates on which such Awards were otherwise to become exercisable or restrictions on such Awards were otherwise to lapse).

Pursuant to and in accordance with the terms of the Award Plans, the Executive has the right to satisfy his or her tax withholding obligations with respect to any Award by directing the Company to withhold from the shares issuable or deliverable to the Executive under such Award a number of shares having a fair market value equal to the amount of tax required to be withheld upon the lapse of restrictions applicable to or exercise of such Award; provided, however, that if the Executive signs an "Affiliates Letter" as described in Section 6.8 of the Merger Agreement, the Executive agrees to pay withholding tax arising from the lapse of restrictions applicable to or exercise of any Awards during the period beginning 30 days prior to the date of the Closing and ending on the date (the "Permitted Sale Date") on which the Executive may first sell shares of AIG capital stock in accordance with such "Affiliates Letter", by delivering to the Company, within 10 business days following the Permitted Sale Date, cash or a number of shares having a fair market value equal to the amount of tax required to be withheld. If the Executive signs such an "Affiliates Letter", his or her agreement set forth in the preceding sentence shall, within the meaning of and pursuant to the Award Plans, constitute "arrangements satisfactory to the Committee" regarding payment of any taxes required to be withheld with respect to Executive's Awards, and payment to the Company of such withholding taxes shall not be a condition to the lapse of restrictions pertaining to, or the delivery of shares in connection with the exercise of, any Award prior to the time that the Executive may sell shares of AIG capital stock in accordance with such "Affiliates Letter".

Capitalized terms used and not otherwise defined in this Exhibit B shall have the meanings given such terms in Executive's Employment Agreement, to which this Exhibit B is attached.

Grant Detail Report SunAmerica Inc.

Exercisable as of 11/25/1998 Schedule B-1

JAY S. WINTROB
[ADDRESS]
[SOCIAL SECURITY NUMBER]

Grant Date	Expiration Date	Plan ID	Grant Type	Options Granted	Option Price	Options Outstanding	Options Vested
3/1/1989	3/1/1999	1988	Non-Qualified	225,000	$1.444500	0	0

Exercises

Date	Exercised	Price
7/16/1997	112,500	$37.375000
11/20/1998	112,500	$76.969900

Grant Date	Expiration Date	Plan ID	Grant Type	Options Granted	Option Price	Options Outstanding	Options Vested
3/1/1989	3/1/1999	1988	Non-Qualified	112,500	$1.444500	75,000	75,000

Exercises

Date	Exercised	Price
11/20/1998	37,500	$76.969900

Grant Date	Expiration Date	Plan ID	Grant Type	Options Granted	Option Price	Options Outstanding	Options Vested
7/25/1990	7/25/2000	1988	Non-Qualified	135,000	$2.208900	135,000	135,000
7/25/1991	7/25/2001	1988	Non-Qualified	112,500	$2.346700	112,500	112,500
7/30/1992	7/30/2002	1988	Non-Qualified	112,500	$4.500000	112,500	112,500
7/29/1993	7/29/2003	1988	Non-Qualified	90,000	$7.152700	90,000	90,000
7/29/1994	7/29/2004	1988	Non-Qualified	101,250	$10.013300	101,250	81,000

Options Becoming Exercisable

20,250 on 7/29/1999

Grant Date	Expiration Date	Plan ID	Grant Type	Options Granted	Option Price	Options Outstanding	Options Vested
7/28/1995	7/28/2005	1988	Non-Qualified	112,500	$12.306700	112,500	67,500

Options Becoming Exercisable

22,500 on 7/28/1999 22,500 on 7/28/2000

Grant Date	Expiration Date	Plan ID	Grant Type	Options Granted	Option Price	Options Outstanding	Options Vested
8/1/1996	8/1/2006	1988	Non-Qualified	90,000	$20.458300	90,000	36,000

Exercisable as of 11/25/1998

JAY S. WINTROB
[ADDRESS]
[SOCIAL SECURITY NUMBER]

Grant Date	Expiration Date	Plan ID	Grant Type	Options Granted	Option Price	Options Outstanding	Options Vested

Options Becoming Exercisable

18,000 on 8/1/1999   18,000 on 8/1/2000   18,000 on 8/1/2001

11/7/1996	11/7/2006	1997	Non-Qualified	165,000	$27.166700	165,000	0

Options Becoming Exercisable

165,000 on 11/7/2005

8/4/1997	8/4/2007	1997	Non-Qualified	47,700	$39.354200	47,700	9,540

Options Becoming Exercisable

9,540 on 8/4/1999   9,540 on 8/4/2000   9,540 on 8/4/2001   9,540 on 8/4/2002

Totals	1,303,950	1,041,450	719,040

SCHEDULE B-2 - As of 11/1/98

JAY WINTROB

RESTRICTED STOCK / STOCK UNITS

Grant Date	Number of shares of Restricted Stock / Stock Units
1987 Plan	26,127
7/28/94	135,000
12/23/94	225,000
5/31/95	112,500

SUPER SHARES

Grant Date	Number of shares subject to Super Share Award
12/23/94	112,500
5/31/95	56,250

CASH BONUS AWARD

Grant Date	Dollar Amount of Award
11/7/96	$4,482,500

Exhibit C

RESIGNATION AND GENERAL RELEASE AGREEMENT

This Resignation and General Release Agreement ("Release Agreement"), made this ______ of ______________, ______, by and between _____________________ ("Executive"), an individual, and ______________________ Inc. (together with its subsidiaries, affiliates and successors, the "Company"), a ______________ corporation, is an agreement which includes a general release of claims. Capitalized terms not defined in this Release Agreement shall have the meanings ascribed to such terms in that certain Employment Agreement between the Executive and the Company dated as of _____________________________ (the "Employment Agreement").

WHEREAS, pursuant to the Employment Agreement, the Executive agreed to execute this Release Agreement upon any termination of employment during the Employment Period, as such term is defined in the Employment Agreement, and upon payment of certain amounts specified in the Employment Agreement; and

WHEREAS, Executive and the Company now desire to terminate Executive's employment relationship with the Company during the Employment Period.

NOW THEREFORE, in consideration of the mutual terms, conditions and covenants contained in this Release Agreement, Executive and the Company agree as follows:

1. Executive hereby relinquishes Executive's position as ____________________________ effective ________________, and resigns as an employee of the Company in any other capacity, such resignation to be effective _____________________. Such date coincides with the Date of Termination determined in accordance with Section 3(e) of the Employment Agreement. E Executive and the Company represent and warrant that any employment relationship between them terminates on the Date of Termination, and that they shall have no further employment relationship except as may be set forth in this Release Agreement [insert if termination under Section 4(a): and to the extent necessary for Executive to receive the benefits contemplated by Sections 4(a)(iii) and 4(a)(iv) of the Employment Agreement]. Notwithstanding such termination of employment or any provision of this Release Agreement to the contrary, Executive shall be entitled to all rights and benefits to be provided to Executive following the Date of Termination under or pursuant to the terms of the Employment Agreement, including, without limitation, those specified in Section 4 [insert as applicable (a) or (b)] thereof. Executive and the Company each acknowledge and agree to abide by their respective obligations pursuant to the Sections of the Employment Agreement that survive, and remain in full force and effect, notwithstanding any termination of Executive's employment, as specified in Section 10(a) of the Employment Agreement.

2. The Company shall pay Executive $_______________ in a lump sum in cash, less standard withholding and authorized deductions, no later than the 30th day after the Date of Termination, so long as Executive has not revoked this Release Agreement prior to the date of such payment. Such payment represents all cash amounts due on or prior to such date from the Company to Executive under Section 4 [insert as applicable: (a) or (b)] of the

Employment Agreement. This Release Agreement shall be null and void if any amount or amounts payable to Executive under or pursuant to the terms of the Employment Agreement are not paid when due.

3. (a) Except for the compensation, rights and benefits to be paid or provided to Executive, and other obligations of the Company to be complied with, following the Date of Termination under or pursuant to the terms of the Employment Agreement, as set forth therein or in Paragraphs 1 and 2 hereof, which shall not be limited in any way by the provisions of this Paragraph 3, and except as provided below, Executive on behalf of Executive, Executive's descendants, dependents, heirs, executors, administrator, assigns, and successors, and each of them, hereby covenants not to sue and fully releases and discharges the Company, and its subsidiaries and affiliates, past and present, and each of them, as well as its and their trustees, directors, officers, agents, attorneys, insurers, employees, stockholders, representatives, assigns, and successors, past and present, and each of them, hereinafter and collectively referred to as "Releasees," with respect to and from any and all claims, wages, demands, rights, liens, agreements, contracts, covenants, actions, suits, causes of action, obligations, debts, costs, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind or nature in law, equity or otherwise, whether now known or unknown, suspected or unsuspected, and whether or not concealed or hidden, which Executive now owns or holds or Executive has at any time heretofore owned or held or may in the future hold as against said Releasees, arising out of or in any way connected with Executive's employment relationship with the Company, or termination of that employment relationship, or any other transactions, occurrences, acts or omissions or any loss, damage or injury whatever, known or unknown, suspected or unsuspected, resulting from any act or omission by or on the part of said Releasees, or any of them, committed or omitted prior to the date of this Release Agreement including, without limiting the generality of the foregoing, any claim under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act of 1993, the California Fair Employment and Housing Act, the California Family Rights Act or any claim for severance pay, bonus, sick leave, holiday pay, vacation pay, life insurance, health or medical insurance or any other fringe benefit or disability; provided, however, that, nothing herein shall be deemed to constitute a waiver of Executive's rights under COBRA.

(b) Except for those obligations of Executive to be complied with following the Date of Termination, as identified in the Employment Agreement or arising out of this Agreement, and except as provided below, the Company hereby acknowledges full and complete satisfaction of and releases and discharges, and covenants not to sue, Executive from and with respect to any and all claims, agreements, obligations, losses, damages, injuries, demands and causes of action, known or unknown, suspected or unsuspected, arising out of or in any way connected with Executive's employment relationship with or termination from the Company, or any other occurrences, actions, omissions or claims whatever, known or unknown, suspected or unsuspected, which the Company now owns or holds or has at any time heretofore owned or held against as Executive, provided, however, that such release of Executive shall not extend to any claims, known or unknown, suspected or unsuspected, against Executive which arise out of facts which are finally adjudged by a court of competent jurisdiction to be a crime under any federal.

state, or local statute, law, ordinance or regulation, or which are based upon facts which give rise to a recovery by the Company under any applicable policies of insurance solely as a result of actions or omissions by Executive and as to which the insurer has a right to subrogation.

(c) It is the intention of Executive and the Company in executing this Release Agreement that the same shall be effective as a bar to each and even claim, demand and cause of action hereinabove specified (specifically excluding from such bar claims, demands and causes of action relating to or arising out of those matters set forth as exceptions in, or included in the proviso clauses of, Paragraphs 3(a) and 3(b) hereof (the "Continuing Claims")). In furtherance of this intention, Executive and the Company hereby expressly waive any and all rights and benefits conferred upon each of them by the provisions of SECTION 1542 OF THE CALIFORNIA CIVIL CODE or any similar provision and each expressly consents that this Release Agreement shall be given full force and effect according to each and all of its express terms and provisions, including those related to unknown and unsuspected claims, demands and causes of action, if any, as well as those relating to any other claims, demands and causes of action hereinabove specified (specifically excluding from such waiver and consent claims, demands and causes of action relating to or arising out of the Continuing Claims). SECTION 1542 provides:

> A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR.

Executive and the Company acknowledge that they each may hereafter discover claims or facts in addition to or different from those which each now knows or believes to exist with respect to the subject matter of this Release Agreement and which, if known or suspected at the time of executing this Release Agreement, may have materially affected this settlement. Nevertheless, Executive and the Company each hereby waives any right, claim or cause of action that might arise as a result of such different or additional claims or facts (specifically excluding from such waiver any rights, claims or causes of action relating to or arising out of the Continuing Claims). Executive and the Company individually acknowledge that they each understand the significance and consequence of such release and such specific waiver of SECTION 1542.

4. Executive expressly acknowledges and agrees that, by entering into this Release Agreement, Executive is waiving any and all rights or claims that Executive may have arising under the Age Discrimination in Employment Act of 1967, as amended, which have arisen on or before the date of execution of this Release Agreement. Executive further expressly acknowledges and agrees that:

(a) In return for this Release Agreement, Executive will receive consideration beyond that which Executive is already entitled to receive before entering into this Release Agreement:

(b) Executive was orally advised by the Company and is hereby advised in writing by this Release Agreement to consult with an attorney before signing this Release Agreement;

(c) Executive was given a copy of this Release Agreement on _________________, and informed that Executive had 21 days within which to consider the Release Agreement; and

(d) Executive was informed that Executive has seven (7) days following the date of execution of the Release Agreement in which to revoke the Release Agreement.

5. Executive and the Company each warrant and represent to the other that they have not heretofore assigned or transferred to any person not a party to this Release Agreement any matter released pursuant to Paragraph 3 and 4 hereof or any part or portion thereof.

6. The parties agree that the terms and conditions of this Release Agreement are confidential as between the parties and shall not be disclosed, except as required by law or to enforce this Release Agreement. Without limiting the generality of the foregoing, the parties will not respond to or in any way participate in or contribute to any public discussion, notice or other publicity concerning, or in any way relating to, execution of this Release Agreement or the events (including any negotiations) which led to its execution.

7. Neither the Executive nor the Company shall assign or transfer any rights under this Release Agreement without the other party's prior written consent, and any attempt of assignment or transfer without such consent shall be void.

8. This instrument constitutes and contains the final understanding between the parties and is intended by the parties as a complete and exclusive statement of the terms of their agreement. Except as otherwise set forth herein, it supersedes and replaces all prior negotiations and all agreements proposed or otherwise, whether written or oral, concerning the subject matters hereof. This Release Agreement may be modified only with a written instrument duly executed by each of the parties. No person has any authority to make any representation or promise on behalf of any of the parties not set forth herein and this Release Agreement has not been executed in reliance upon any representations or promises except those contained herein. Any dispute between the parties hereto with respect to the subject matter hereof shall at the request of either party be determined by binding arbitration in accordance with the provisions of Section 5 of the Employment Agreement, which Section 5 is incorporated herein and made a part hereof by this reference.

9. If any provision of this Release Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of the Release Agreement which can be given effect without the invalid provisions or applications and to this end the provisions of this Release Agreement are declared to be severable.

10. This Release 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.

11. This Release Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original, but all executed counterparts shall constitute one and the same agreement.

12. No waiver of any breach of any term or provision of this Release Agreement shall be construed to be, or shall be, a waiver of any other breach of this Release Agreement. No waiver shall be binding unless in writing and signed by the party waiving the breach.

13. The parties agree to cooperate fully and to execute any and all supplementary documents and to take all additional actions that may be necessary or appropriate to give full force to the basic terms and intent of this Release Agreement and which are not inconsistent with its terms.

The parties acknowledge that they have each read the foregoing Release Agreement and accept and agree to the provisions it contains and hereby execute it voluntarily with full understanding of its consequences.

EXECUTED this ___day of ____________, _________ in ________________.

NAME

SUNAMERICA INC.

By:

NAME & TITLE

EMPLOYMENT AGREEMENT

AGREEMENT by and between SunAmerica Inc., a Maryland corporation (the "Company"), and Jay S. Wintrob (the "Executive"), dated as of the 27th day of April, 1995.

In view of Executive's long-term service with and continuing contribution to the Company, the Company's Board of Directors (the "Board") believes it is in the best interests of the Company and its shareholders to secure Executive's continued services by reducing the personal uncertainties and risks associated with the possibility or occurrence of a Change of Control (as defined in Exhibit A). The Board has, therefor, caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Effective Date.

(a) The "Effective Date" shall mean the first date following the eighth anniversary of Executive's employment with the Company and prior to April 27, 2000 on which a Change of Control occurs; provided that no Change of Control shall be deemed to have occurred so long as Eli Broad continues to serve as the Chief Executive Officer of the Company or continues to beneficially own more than 35% of the Outstanding Company Voting Securities (as such terms are defined in Exhibit A). Notwithstanding anything in this Agreement to the contrary, if a Change of Control occurs within one year after termination of Executive's employment with the Company, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who had taken steps reasonably calculated to effect the Change of Control or (ii) otherwise arose in connection with or anticipation of the Change of Control, then the "Effective Date" shall mean the date immediately prior to the date of such termination of employment.

(b) The Executive and the Company acknowledge that, prior to the Effective Date, the employment of the Executive by the Company is "at will" and may be terminated by either the Executive or the Company at any time. Moreover, if prior to the Effective Date, the Executive's employment with the Company terminates, then the Executive shall have no further rights under this Agreement.

2. Employment Period. The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company, in accordance with the terms and provisions of this Agreement, for the period

commencing on the Effective Date and ending on the fifth anniversary of such date (the "Employment Period").

3. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive's position (including titles and reporting requirements), authority and duties shall be at least commensurate in all material respects with those held, exercised and assigned during the 180-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the location where he was employed immediately preceding the Effective Date or any office which is the headquarters of the Company and is less than 50 miles from such location.

(ii) During the Employment Period, the Executive agrees to devote his full business time and attention to the business and affairs of the Company and to use his reasonable best efforts to perform faithfully and efficiently the responsibilities assigned to him in accordance with this Agreement. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on civic or charitable boards or committees, (B) fulfill speaking engagements and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Company in accordance with this Agreement.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary at least equal to his annual base salary in effect immediately prior to the Effective Date.

(ii) Compensation Plans. During the Employment Period, the Executive shall be entitled to participate in all bonus and incentive compensation plans, practices, policies and programs ("Compensation Plans") available generally to other peer executives of the Company and its affiliated companies. Such Compensation Plans shall provide the Executive with the opportunity under reasonable expectations of Company performance to earn an amount of bonus and incentive compensation at least equal, in the aggregate, to the average annual bonus and incentive compensation received by Executive with respect to the Company's two full fiscal years immediately preceding the Effective Date or, if greater, an amount consistent with the bonus and incentive compensation paid to other peer executives of the Company and its affiliated companies.

(iii) Additional Benefits and Policies. During the Employment Period, the Executive shall be entitled to (A) life and executive medical insurance and other welfare benefits and fringe benefits, (B) prompt reimbursement for all reasonable employment expenses incurred by the Executive, (C) paid vacation, and (D) an office and secretarial and other assistants, in each case in accordance with the policies, practices and procedures of the Company in effect generally with respect to other peer executives of the Company and its affiliated companies.

(iv) Affiliated Companies. For purposes of this Agreement, the term "affiliated companies" will not include any corporation or other entity not controlled by the Company but deemed to be an affiliate because of the ownership or control of Eli Broad.

4. Termination of Employment.

(a) Certain Definitions. The terms "Cause," "Disability," "Good Reason" and "Notice off Termination," as used in this Agreement, are defined in Exhibit A, which is incorporated in and made a part of this Agreement.

(b) Termination of Employment. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. The Company may terminate the Executive's employment during the Employment Period for Cause or due to the Executive's Disability. The Executive may terminate his employment during the Employment Period for Good Reason.

(c) Notice of Termination. Any termination by the Company for Cause or Disability, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 9(b). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason, Cause or Disability shall not waive any right of the Executive or the Company hereunder or preclude the Executive or the Company from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

5. Obligations of the Company upon Termination.

(a) Payments Upon Termination. If, during the Employment Period, the Company shall terminate the Executive's employment other than for Cause or Disability, or the Executive shall terminate his employment for Good Reason, the Company shall pay to the Executive as severance an amount in cash equal to (i) Executive's average annual cash compensation (base salary plus any bonus or incentive compensation) earned during the Company's three full fiscal years immediately preceding the fiscal year in which the Date of Termination occurs (the "Average Cash Compensation"), multiplied by (ii) a fraction, the numerator of which is the number of days remaining, after the Date of Termination (as defined in Exhibit A), in the Employment Period, and the denominator of which is 365; provided, however, that in no event will the amount of such payment be less than one or more than two times the Average Cash Compensation (the "Severance Amount"). One half of such Severance Amount shall be paid to Executive in a lump sum within 10 days after the Date of Termination, with the remaining one half payable in equal installments on the last day of each of the twelve calendar months immediately following the Date of Termination. In addition to any amounts that may be due to Executive pursuant to the previous two sentences or any other provision of this Agreement, upon termination of the Executive's employment with the Company during the Employment Period for any reason whatsoever, the Company (i) will pay to executive, within 10 days after the Date of Termination, any amount of base salary accrued but unpaid through the Date of Termination, any compensation previously deferred by the Executive and accrued vacation pay, and (ii) will timely pay or provide to the Executive and/or his family any other amounts or benefits required to be paid or provided, or which the Executive and/or his family is eligible to receive, pursuant to this Agreement or under any plan, program, policy or practice, contract or agreement of the Company applicable to the Executive or generally applicable to other peer executives of the Company and its affiliated companies (except for severance payments under the severance plan in effect for all Company employees, the benefits under which are replaced during the Employment Period by the provisions of this Section 5(a)).

(b) Effect of Termination on Restricted Stock and Stock Options. Notwithstanding any other provision of this Agreement, of any Company plan or any agreement between Executive and the Company, if Executive's employment with the Company is terminated during the Employment Period (i) by the Company other than for Cause or Disability, or by Executive for Good Reason, then (x) all options to purchase securities of the Company theretofore granted to Executive and not fully exercisable shall become exercisable in full and may be exercised by Executive at any time prior to the one-year anniversary of the Date of Termination, and (y) all restrictions on any shares of restricted stock granted by the Company to and then held by Executive (other than "Super Shares," as defined in the Company's 1995 Performance Stock Plan) shall lapse, and (z) the Company shall issue to Executive the number of Super Shares subject to Executive's outstanding awards and as to which the applicable Super Performance Objectives (as defined in the Company's 1995 Performance Stock Plan) have been achieved on or prior to the

Date of Termination, or, if such objectives have not been achieved by such date, as to which the Company's Board determines, in the reasonable exercise of its business judgement and based on the Company's actual and reasonably anticipated financial results through the end of the applicable Performance Period (as defined in the Company's 1995 Performance Stock Plan), that the applicable Super Performance Objectives are reasonably certain to be achieved by the end of such Performance Period, or (ii) by reason of the Executive's death or Disability, then (x) all restrictions will lapse on that number of shares of restricted stock then held by Executive as to which such restrictions would have lapsed on or prior to the Date of Termination had each agreement between the Company and Executive regarding grants of restricted stock provided for restrictions to lapse on 1 2/3% of the number of shares (other than "Super Shares") included in such grant at the end of each month following the date of such grant, and (y) the Company shall issue to Executive a number of Super Shares equal to the number that would have been issued pursuant to Section 5(b)(i)(z) above had Executive's employment been terminated by the Company other than for Cause or Disability, multiplied by a fraction, the numerator of which is the number of shares of restricted stock as to which restrictions will lapse in accordance with Section 5(b)(ii)(x) above and the denominator of which is the number of shares of restricted stock held by Executive as of the Date of Termination. Certificates representing the number of shares of Company common stock as to which restrictions shall have lapsed and to be issued to Executive under awards of Super Shares pursuant to the previous sentence shall be delivered to Executive (or his estate or legal representatives) by the Company, free of any restrictive legends or conditions, within 10 days after the Date of Termination. This Section 5(b) shall be deemed an amendment to any agreements between the Company and the Executive with respect to outstanding stock options, shares of restricted stock or Super Shares.

6. Non-exclusivity of Rights; Option to Waive Benefits. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify (except for the severance plan in effect for all Company employees, the benefits under which are replaced during the Employment Period by the provisions of Section 5(a) hereof), nor shall anything herein reduce such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement. In no event shall the Executive be obligated to seek other employment or take any other

action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. Executive shall be entitled to refuse or defer all or any portion of any payments or benefits under this Agreement, by delivering written notice of such refusal or deferral to the Company in writing, if he determines that the receipt of such payment or benefit may result in adverse tax consequences to him; provided that such refusal or deferral shall not extend or modify the period during which options may be exercised or restrictions may lapse on restricted shares or Super Shares or as to which performance is measured under any Company benefit or stock plan.

7. Successors. This Agreement is personal to the Executive and 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. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets that becomes subject to this Agreement by operation of law or otherwise.

8. Confidentiality and Solicitation. During the performance of Executive's duties on behalf of the Company, Executive will receive and be entrusted with certain confidential and/or secret information of a proprietary nature. Executive shall not disclose or use, during his employment or any time thereafter, any such information which is not otherwise publicly available, except as may be required by law. Executive agrees that during his employment he will not engage as a director, officer, owner, part-owner (five or more percent shareholder), joint venturer or otherwise, in any business competitive with the Company or any of its affiliated companies; provided that passive investments are permitted by this sentence. In the event of termination of Executive's employment for any reason, for a period of one year thereafter, Executive will not (a) employ or seek to employ or engage any employee of the Company or any of its affiliated companies, or (b) make any public statement concerning the Company, any of its affiliates or affiliated companies, or his employment unless previously approved by the Company, except as may be required by law.

9. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of California. 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: Jay S. Wintrob
2465 La Condesa Drive
Los Angeles, CA 90049

If to the Company: SunAmerica Inc.
1 SunAmerica Center
Century City
Los Angeles, CA 90071-6022
Attention: Chief Executive Officer

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 may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) If any legal action shall be brought for the enforcement of this Agreement, or because of any alleged dispute, breach or default hereunder, the successful or prevailing party shall be entitled to recover reasonable attorneys' fees and other costs incurred in such action in addition to any other relief to which it or he may be entitled.

(f) The Executive's or the Company's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

IN WITNESS WHEREOF, the Executive has executed this Agreement and, pursuant to the authorization from its Board of Directors, the Company has caused this Agreement to be executed in its name on its behalf, all as of the day and year first above written.

by: /s/ Jay S. Wintrob

Jay S. Wintrob

SUNAMERICA INC.

By: /s/ Eli Broad

EXHIBIT A

Certain Definitions

I. "Cause." For purposes of this Agreement, "Cause" shall mean (i) the conviction of the Executive of a felony or other crime involving fraud, dishonesty or moral turpitude, (ii) fraud with respect to the business of the Company, or (iii) a material breach by the Executive of the Executive's obligations under Section 3(a) of this Agreement (other than as a result of incapacity due to physical or mental illness), which is willful and deliberate or the result of Executive's gross neglect of duties, and which is not remedied in a reasonable period of time after receipt of written notice from the Board of Directors of the Company specifying such breach.

II. "Change of Control." For purposes of this Agreement, a "Change of Control" shall mean the occurrence of any of the following events:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more, or such greater percentage as shall be required to make such individual, entity or group, immediately following such acquisition, the largest holder, of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege), (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iv) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (A), (B) and (C) of subsection (c) of this paragraph II are satisfied; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Approval by the shareholders of the Company of (i) a complete liquidation or dissolution of the Company, (ii) a reorganization, consolidation or merger (a "Reorganization"), or (iii) the sale or other disposition of all or substantially all of the assets of the Company (a "Sale"), unless, following the consummation of any such Reorganization or Sale, the following requirements are satisfied with respect to the corporation resulting from such Reorganization, or the corporation which has acquired all or substantially all of the assets of the Company: (A) more than 60% of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Reorganization or Sale, in substantially the same proportion as their ownership, immediately prior to such Reorganization or Sale of the Outstanding Company Voting Securities, (B) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or such corporation and any Person beneficially owning, immediately prior to such reorganization, consolidation or merger, or such sale or other disposition, directly or indirectly, 20% or more of the Outstanding Company Voting Securities) beneficially owns, directly or indirectly, 20% or more of the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such Reorganization or Sale.

If any of the foregoing events occurs and Eli Broad is then the Chief Executive Officer of the Company or the beneficial owner of more than 35% of the Outstanding Company Voting Securities, then, notwithstanding the foregoing, such Change of Control shall be deemed to have occurred on the first date on which Mr. Broad is no longer the Chief Executive Officer of the Company or the beneficial owner of more than 35% of the Outstanding Company Voting Securities.

III. "Date of Termination." For purposes of this Agreement, the "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause or Disability, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the

Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive's employment is terminated by reason of death, the Date of Termination shall be the date of Executive's death.

IV. "Disability." For purposes of this Agreement, "Disability" shall mean the absence of the Executive from his duties with the Company on a full-time basis for 120 consecutive 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 acceptable to the Executive or his legal representative (such agreement as to acceptability not to be withheld unreasonably).

V. "Good Reason." For purposes of this Agreement, "Good Reason" shall mean:

(i) any action or failure to act by the Company which results in Executive's position (including titles and reporting requirements), authority or duties being reduced below the level specified in Section 3(a) (i) (A) of this Agreement;

(ii) any failure by the Company to comply with the provisions of Section 3(b) of this Agreement;

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 3(a) (i) (B) of this Agreement; or

(iv) any purported termination by the Company of the Executive's employment otherwise than as expressly permitted by this Agreement.

VI. "Notice of Termination." For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) 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 (specifying the provision of this Agreement relied upon) and (ii) if the Date of Termination is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than 15 days after the giving of such notice).

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

This AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT dated as of February __, 1997 amends in the respects set forth herein that certain Employment Agreement by and between SunAmerica Inc., a Maryland Corporation, (the "Company"), and Jay S. Wintrob (the "Executive"), dated as of April 27, 1995.

Section 5(b) of the Employment Agreement is amended to include the following sentence to the end of that Section:

> References in this Agreement to "options," "restricted stock" and "Super Shares" shall include all similar awards or plans offering similar benefits to the Employee, including, without limitation, any restricted stock units awarded under the 1995 Performance Stock Plan or the 1988 Employee Stock Plan, stock options under the 1997 Employee Incentive Stock Plan, and awards under the 1997 Long-Term, Incentive Plan.

IN WITNESS WHEREOF, the Employee has executed this Amendment and, pursuant to the authorization from the Board of Directors, the Company has caused this Amendment to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Jay S. Wintrob

Jay S. Wintrob

SUNAMERICA INC.

By: /s/ Eli Broad

Eli Broad

EXHIBIT 11

COMPUTATION OF EARNINGS PER SHARE

American International Group, Inc. and Subsidiaries

(in millions, except per share amounts)

YEARS ENDED DECEMBER 31,	1998 (a)	1997 (b)	1996 (b)	1995 (b)	1994 (b)
NUMERATOR:					
Net income applicable to common stock	$3,766	$3,332	$2,897	$2,510	$2,176
DENOMINATOR:					
Average outstanding shares used in the computation of per share earnings:					
Common stock issued	1,139	1,139	1,139	1,138	1,139
Common stock in treasury	(89)	(86)	(79)	(72)	(70)
Average outstanding shares-- basic	1,050	1,053	1,060	1,066	1,069
Stock options and stock purchase plan (treasury stock method)	5	4	4	4	3
Average outstanding shares-- diluted	1,055	1,057	1,064	1,070	1,072
Earnings per share:					
Basic	$3.59	$3.16	$2.73	$2.35	$2.04
Diluted	$3.57	$3.15	$2.72	$2.35	$2.03

(a) The number of common shares outstanding as of December 31, 1998 was 1,050. The number of common shares that would have been outstanding as of December 31, 1998 assuming the exercise or issuance of all dilutive potential common shares outstanding is 1,055.

(b) Share information reflects common stock splits in the form of 50 percent common stock dividends paid July 31, 1998, July 25, 1997 and July 28, 1995.

COMPUTATION OF RATIOS OF
EARNINGS TO FIXED CHARGES

EXHIBIT 12
American International Group, Inc. and Subsidiaries

(in millions, except ratios)

YEARS ENDED DECEMBER 31,	1998	1997	1996	1995	1994
Income before income taxes and minority interest	$5,529	$4,731	$4,056	$3,502	$2,982
Less-Equity income of less than 50% owned persons	98	120	121	91	54
Add-Dividends from less than 50% owned persons	24	30	13	6	4
	5,455	4,641	3,948	3,417	2,932
Add-Fixed charges	2,038	1,834	1,615	1,484	1,405
Less-Capitalized interest	74	50	50	51	46
Income before income taxes, minority interest and fixed charges	$7,419	$6,425	$5,513	$4,850	$4,291
Fixed charges:					
Interest costs	$1,947	$1,754	$1,542	$1,412	$1,335
Rental expense*	91	80	73	72	70
Total fixed charges	$2,038	$1,834	$1,615	$1,484	$1,405
Ratio of earnings to fixed charges	3.64	3.50	3.41	3.27	3.05

* 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 5.86, 5.45, 5.23, 4.82 and 5.30 for 1998, 1997, 1996, 1995 and 1994, respectively. As AIGFP will continue to be a subsidiary, AIG expects that these ratios will continue to be lower than they would be if the fixed charges and operating results of AIGFP were not included therein.

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

NAME OF CORPORATION	JURISDICTION OF INCORPORATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT (1)
Starr	Delaware	(2)
SICO	Panama	(2)
AIG (Registrant)(3)	Delaware	(4)
AICCO	New Hampshire	100%
AIG Asset Management Group, Inc.	Delaware	100%
AIG Capital Partners, Inc.	Delaware	100%
AIG Aviation, Inc.	Georgia	100%
AIG Capital Corp.	Delaware	100%
AIG Capital Management Corp.	Delaware	100%
AIG Claim Services, Inc.	Delaware	100%
AIG Consumer Finance, Inc.	Delaware	100%
AIG Finance Holdings, Inc.	New York	100%
SPC Credit Limited	Hong Kong	100%
AIG Financial Products Corp.	Delaware	100%
AIG Funding, Inc.	Delaware	100%
AIG Global Investment Group, Inc.	Delaware	100%
AIG Global Trade & Political Risk Insurance Company	New Jersey	100%
AIG Life Insurance Company	Delaware	78.9% (5)
AIG Life Insurance Company of Canada	Canada	100%
AIG Life Insurance Company of Puerto Rico	Puerto Rico	100%
AIG Marketing, Inc.	Delaware	100%
AIG Private Bank Ltd.	Switzerland	100%
AIG Risk Management, Inc.	New York	100%
AIG Trading Group Inc.	Delaware	80%
AIU Insurance Company	New York	52% (6)
AIU North America, Inc.	New York	100%
American Home	New York	100%
AIG Hawaii 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%
Transatlantic Holdings, Inc.	Delaware	33.98% (7)
American International Group Data Center, Inc.	New Hampshire	100%
American International Life Assurance Company of New York	New York	77.52% (8)
American International Reinsurance Company Limited	Bermuda	100%
AIA	Hong Kong	100%
Australian American Assurance Company Limited	Australia	100%
American International Assurance Company (Bermuda) Limited	Bermuda	100%
Nan Shan Life Insurance Company, Ltd.	Taiwan	94.12%
American International Underwriters Corporation	New York	100%
AIUO	Bermuda	100%
AIG Europe (Ireland) Ltd.	Ireland	100%
Universal Insurance Co., Ltd.	Thailand	100%
Interamericana Companía de Seguros Gerais (Brazil)	Brazil	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%

SUBSIDIARIES OF REGISTRANT--(continued)

NAME OF CORPORATION	JURISDICTION OF INCORPORATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT (1)
American Life Insurance Company	Delaware	100%
AIG Brasil Holding Ltd.	Brazil	73.6% (9)
Kenya American Insurance Company Limited	Kenya	100%
ALICO	France	89%
American Security Life Insurance Company, Ltd.	Switzerland	99.8%
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%
Imperial Premium Finance, Inc.	Delaware	100%
The Insurance Company of the State of Pennsylvania	Pennsylvania	100%
Landmark Insurance Company	California	100%
Le Metropolitana de Seguros, C. por A.	Dominican Republic	100%
Mt. Mansfield Company, Inc.	Vermont	100%
National Union	Pennsylvania	100%
American International Specialty Lines Insurance Company	Alaska	70% (10)
International Lease Finance Corporation	California	100%
Lexington	Delaware	70% (10)
JI Accident & Fire Insurance Co. Ltd.	Japan	50%
National Union Fire Insurance Company of Louisiana	Louisiana	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	Pennsylvania	100%
AIG Europe, S.A.	France	(11)
A.I. Network Corporation	New Hampshire	100%
Marketpac International, Inc.	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%
PHILAM	Philippines	99%
Pacific Union Assurance Company	California	100%
The Philippine American General Insurance Company, Inc.	Philippines	100%
Philam Insurance Company, Inc.	Philippines	100%
The Philippine American Assurance Company, Inc.	Philippines	25%
Pine Street Real Estate Holdings Corp.	New Hampshire	(12)
American International Realty Corp.	Delaware	100%

SUBSIDIARIES OF REGISTRANT--(continued)

NAME OF CORPORATION	JURISDICTION OF INCORPORATION	% OF VOTING SECURITIES OWNED BY ITS IMMEDIATE PARENT (1)
Risk Specialist Companies, Inc.	Delaware	100%
SunAmerica Inc.	Delaware	100%
Anchor National Life Insurance Company	Arizona	100%
CalAmerica Life Insurance Company	California	100%
First SunAmerica Life Insurance Company	New York	100%
Resources Trust Company	Colorado	100%
SunAmerica Asset Management Corp.	Delaware	100%
SunAmerica Life Insurance Company	Arizona	100%
SunAmerica National Life Insurance Company	Arizona	100%
20th Century Industries	California	58%
20th Century Insurance Company	California	100%
21st Century Insurance Company	California	100%
20th Century Insurance Company of Arizona	Arizona	51% (13)
UGC	North Carolina	36.31% (14)
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 Residential Insurance Company of North Carolina	North Carolina	100%
United Guaranty Residential Insurance Company	North Carolina	75% (15)
United Guaranty Commercial Insurance Company of North Carolina	North Carolina	100%
United Guaranty Commercial Insurance Company	North Carolina	100%
United Guaranty Credit Insurance Company	North Carolina	100%
United Guaranty Services, Inc.	North Carolina	100%

(1) Percentages include directors' qualifying shares.
(2) The directors and executive officers of AIG as a group own 79.50 percent of the voting common stock of Starr and 75 percent of the voting stock of SICO. Six of the directors of AIG also serve as directors of Starr and SICO.
(3) 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.
(4) The common stock is owned 13.7 percent by SICO, 2.0 percent by Starr and 2.9 percent by The Starr Foundation.
(5) Also owned 21.1 percent by Commerce & Industry Insurance Company.
(6) Also owned 8 percent by The Insurance Company of the State of Pennsylvania, 32 percent by National Union, and 8 percent by Birmingham.
(7) Also owned 21.1 percent by American International Group, Inc.
(8) Also owned 22.48 percent by American Home.
(9) Also owned 26.4 percent by American International Group, Inc.
(10) Also owned 20 percent by The Insurance Company of the State of Pennsylvania and 10 percent by Birmingham.
(11) 100 percent to be held with other AIG companies.
(12) Owned by 13 AIG subsidiaries.
(13) Also owned 49 percent by 20th Century Industries.
(14) 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.
(15) Also owned 25 percent by United Guaranty Residential Insurance Company of North Carolina.

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of American International Group, Inc. on Form 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. 33-18073, No. 33-57250, No. 33-60327, No. 333-48639, No. 333-58095 and No. 333-70069) of our report dated February 11, 1999, on our audits of the consolidated financial statements and financial statement schedules of American International Group, Inc. and subsidiaries as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, which report is included in the Annual Report on Form 10-K of American International Group, Inc. for the year 1998, and to the reference to our firm under the headings "Financial Statements" or "Experts" included in the Prospectuses.

PricewaterhouseCoopers LLP

New York, New York
March 31, 1999.

7
1,000,000

12-MOS
DEC-31-1998
JAN-01-1998
DEC-31-1998
48,243
12,658
13,633
5,893
3,290
1,552
141,505
303
17,744
7,647
194,398
67,881
10,009
0
15,293
21,505
0
0
2,847
24,284
194,398
24,345
5,424
165
(144)
19,751
1,947
3,533
5,529
1,594
3,766
0
0
0
3,766
3.59
3.57
21,171
10,938
(281)
4,389
5,716
24,619
281

Amount represents income before income taxes and minority interest.
Earnings per share information reflects a common stock split in the form of a 50 percent common stock dividend paid July 31, 1998. Prior period financial data schedules have not been restated for this stock split.
Includes net loss reserves resulting from the acquisitions of Transatlantic and 20th Century.

Exhibit 99

UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i)to include any prospectus required by Section 10(a) (3) of the Securities Act of 1933 unless the information required to be included in such post-effective amendment is contained in a periodic report filed by registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 and incorporated herein by reference,

(ii)to reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration Statement unless the information required to be included in such post-effective amendment is contained in a periodic report filed by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 and incorporated herein by reference, and

(iii)to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

(2) that, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof;

(3) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering; and

(4) that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(b) The undersigned registrant hereby undertakes to deliver or cause to be delivered with the prospectus to each employee to whom the prospectus is sent or given, a copy of the registrant's annual report to shareholders for its last fiscal year, unless such employee otherwise has received a copy of such report in which case the registrant shall state in the prospectus that it will promptly furnish, without charge, a copy of such report on written request of the employee. If the last fiscal year of the registrant has ended within 120 days prior to the use of the prospectus, the annual report of the registrant for the preceding fiscal year may be so delivered, but within such 120-day period the annual report for the last fiscal year will be furnished to each such employee.

(c) The undersigned registrant hereby undertakes to transmit or cause to be transmitted to all employees participating in the plan, who do not otherwise receive such material as shareholders of the registrant, at the time and in the manner such material is sent to its shareholders, copies of all reports, proxy statements and other communications distributed to its shareholders generally.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Schedule I

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS--OTHER THAN INVESTMENTS IN RELATED PARTIES
AS OF DECEMBER 31, 1998

(in millions)

TYPE OF INVESTMENT	COST*	VALUE	AMOUNT AT WHICH SHOWN IN THE BALANCE SHEET
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 2,135	$ 2,303	$ 2,301
States, municipalities and political subdivisions	19,415	20,762	19,789
Foreign governments	11,202	11,846	11,846
Public utilities	3,874	4,213	4,213
All other corporate	23,212	23,757	23,757
Total bonds	59,838	62,881	61,906
Preferred stocks	--	--	--
Total fixed maturities	59,838	62,881	61,906
Equity securities:			
Common stocks:			
Public utilities	249	275	275
Banks, trust and insurance companies	760	828	828
Industrial, miscellaneous and all other	4,421	4,462	4,462
Total common stocks	5,430	5,565	5,565
Non-redeemable preferred stocks	335	328	328
Total equity securities	5,765	5,893	5,893
Mortgage loans on real estate, policy and collateral loans	8,247	8,247	8,247
Financial services assets:			
Flight equipment primarily under operating leases, net of accumulated depreciation	16,330	--	16,330
Securities available for sale, at market value	10,667	10,674	10,674
Trading securities, at market value	--	5,668	5,668
Spot commodities, at market value	--	476	476
Unrealized gain on interest rate and currency swaps, options and forward transactions	--	9,881	9,881
Trading assets	6,229	--	6,229
Securities purchased under agreements to resell, at contract value	4,838	--	4,838
Other invested assets	6,419	--	6,419
Short-term investments, at cost (approximates market value)	4,944	--	4,944
Total investments	$ 123,277	$ --	$ 141,505

* 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,	1998	1997
ASSETS:		
Cash	$2	$4
Short-term investments	10	1
Invested assets	815	584
Carrying value of subsidiaries and partially-owned companies, at equity	27,745	24,477
Premiums and insurance balances receivable-net	56	62
Other assets	440	270
TOTAL ASSETS	$29,068	$25,398
LIABILITIES:		
Insurance balances payable	$229	$205
Due to affiliates-net	747	230
Medium term notes payable	239	248
Zero coupon notes	102	91
Italian Lire bonds	159	159
Other liabilities	461	464
TOTAL LIABILITIES	$1,937	$1,397
CAPITAL FUNDS:		
Common stock	$2,847	$1,898
Additional paid-in capital	85	106
Retained earnings	25,513	22,921
Accumulated other comprehensive income	(206)	172
Treasury stock	(1,108)	(1,096)
TOTAL CAPITAL FUNDS	27,131	24,001
TOTAL LIABILITIES AND CAPITAL FUNDS	$29,068	$25,398

STATEMENT OF INCOME--PARENT COMPANY ONLY

(in millions)

YEARS ENDED DECEMBER 31,	1998	1997	1996
Agency income (loss)	$ (6)	$ --	$ 1
Financial services income	263	106	227
Dividend income from consolidated subsidiaries:			
Cash	856	1,458	1,142
Dividend income from partially-owned companies	14	22	7
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	3,130	2,341	1,900
Other income (deductions)-net	(119)	(302)	(81)
Income before income taxes	4,138	3,625	3,196
Income taxes	372	293	299
Net income	$ 3,766	$ 3,332	$ 2,897

SCHEDULE II

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,	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,766	$ 3,332	$ 2,897
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	(3,130)	(2,341)	(1,900)
Change in premiums and insurance balances receivable and payable-net	30	32	22
Change in cumulative translation adjustments	(18)	41	66
Other-net	174	401	(294)
Total adjustments	(2,944)	(1,867)	(2,106)
NET CASH PROVIDED BY OPERATING ACTIVITIES	822	1,465	791
Cash flows from investing activities:			
Purchase of investments	(154)	(10)	--
Sale of investments	--	--	34
Change in short-term investments	(9)	(1)	10
Change in collateral and guaranteed loans	(25)	(237)	2
Contributions to subsidiaries and investments in partially-owned companies	(551)	(700)	(292)
Other-net	(36)	(4)	(94)
NET CASH USED IN INVESTING ACTIVITIES	(775)	(952)	(340)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in medium term notes	(9)	108	25
Proceeds from common stock issued	40	37	23
Change in loans payable	218	44	151
Cash dividends to shareholders	(225)	(199)	(174)
Acquisition of treasury stock	(81)	(508)	(494)
Other-net	8	8	19
NET CASH USED IN FINANCING ACTIVITIES	(49)	(510)	(450)
CHANGE IN CASH	(2)	3	1
CASH AT BEGINNING OF YEAR	4	1	--
CASH AT END OF YEAR	$ 2	$ 4	$ 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 1997 and 1996 financial statements to conform to their 1998 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, 1998, 1997 AND 1996 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
1998					
GENERAL INSURANCE	$ 1,852	$38,310	$10,009	$ --	$14,098
LIFE INSURANCE	5,795	29,571	--	1,135	10,247
	$ 7,647	$67,881	$10,009	$ 1,135	$24,345
1997					
General insurance	$ 1,637	$33,400	$ 8,739	$ --	$12,421
Life insurance	4,956	24,502	--	795	9,926
	$ 6,593	$57,902	$ 8,739	$ 795	$22,347
1996					
General insurance	$ 1,416	$33,430	$ 7,599	$ --	$11,855
Life insurance	5,055	24,003	--	794	8,978
	$ 6,471	$57,433	$ 7,599	$ 794	$20,833

(in millions)

SEGMENT	NET INVESTMENT INCOME	LOSSES AND LOSS EXPENSES INCURRED, BENEFITS	AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS(C)	OTHER OPERATING EXPENSES	NET PREMIUMS WRITTEN
1998					
GENERAL INSURANCE	$ 2,192	$10,657	$ 1,358	$ 1,552	$14,586
LIFE INSURANCE	3,232	9,094	589	1,981	--
	$ 5,424	$19,751	$ 1,947	$ 3,533	$14,586
1997					
General insurance	$ 1,854	$ 9,356	$ 1,216	$ 1,359	$13,408
Life insurance	2,896	8,811	631	1,830	--
	$ 4,750	$18,167	$ 1,847	$ 3,189	$13,408
1996					
General insurance	$ 1,691	$ 8,997	$ 1,180	$ 1,228	$12,692
Life insurance	2,676	8,103	628	1,634	--
	$ 4,367	$17,100	$ 1,808	$ 2,862	$12,692

(a) Reserves for losses and loss expenses with respect to the general insurance operations are net of discounts of $551 million, $294 million and $62 million for 1998, 1997 and 1996, 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, 1998, 1997 AND 1996 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
1998					
Life insurance in-force	$497,876	$ 58,235	$ 1,291	$440,932	0.3%
Premiums:					
General insurance	$ 17,931	$ 6,098	$ 2,753*	$ 14,586	18.9%
Life insurance	10,504	285	28	10,247	0.3
Total premiums	$ 28,435	$ 6,383	$ 2,781	$ 24,833	11.2%
1997					
Life insurance in-force	$435,330	$ 50,924	$ 1,243	$385,649	0.3%
Premiums:					
General insurance	$ 17,097	$ 5,334	$ 1,645	$ 13,408	12.3%
Life insurance	10,191	286	21	9,926	0.2
Total premiums	$ 27,288	$ 5,620	$ 1,666	$ 23,334	7.1%
1996					
Life insurance in-force	$421,167	$ 44,691	$ 816	$377,292	0.2%
Premiums:					
General insurance	$ 16,696	$ 5,627	$ 1,623	$ 12,692	12.8%
Life insurance	9,227	261	12	8,978	0.1
Total premiums	$ 25,923	$ 5,888	$ 1,635	$ 21,670	7.5%

* The increase results from the consolidation of Transatlantic.