

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

OR

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

FOR THE TRANSITION PERIOD FROM TO

FOR QUARTER ENDED MARCH 31, 2001 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 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
OR ORGANIZATION)
70 PINE STREET, NEW YORK, NEW YORK 10270
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 770-7000
NONE

FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2001: 2,331,018,041.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET
(IN MILLIONS)

	MARCH 31, 2001	DECEMBER 31, 2000
	----- (UNAUDITED)	-----
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2001 -- \$104,802; 2000 -- \$89,461).....	\$107,187	\$ 89,631
Bonds held to maturity, at amortized cost (market value: 2000 -- \$12,053).....	--	11,533
Bonds trading securities, at market value (cost: 2001 -- \$785; 2000 -- \$838).....	791	846
Equity securities:		
Common stocks (cost: 2001 -- \$6,206; 2000 -- \$6,371).....	5,672	6,125
Non-redeemable preferred stocks (cost: 2001 -- \$1,226; 2000 -- \$1,166).....	1,166	1,056
Mortgage loans on real estate, net of allowance (2001 -- \$90; 2000 -- \$87).....	7,185	7,127
Policy Loans.....	3,124	3,032
Collateral and guaranteed loans, net of allowance (2001 -- \$43; 2000 -- \$40).....	2,150	2,084
Financial services and asset management assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2001 -- \$2,904; 2000 -- \$2,723).....	20,398	19,325
Securities available for sale, at market value (cost: 2001 -- \$16,141; 2000 -- \$14,636).....	16,173	14,669
Trading securities, at market value.....	6,764	7,347
Spot commodities, at market value.....	483	363
Unrealized gain on interest rate and currency swaps, options and forward transactions.....	11,953	10,235
Trading assets.....	6,786	7,045
Securities purchased under agreements to resell, at contract value.....	15,655	14,991
Other invested assets.....	16,478	13,394
Short-term investments, at cost (approximates market value).....	5,898	5,831
Cash.....	253	256
	-----	-----
Total investments and cash.....	228,116	214,890
Investment income due and accrued.....	2,258	2,420
Premiums and insurance balances receivable, net of allowance (2001 -- \$184; 2000 -- \$170).....	12,727	11,832
Reinsurance assets.....	24,024	23,135
Deferred policy acquisition costs.....	10,344	10,189
Investments in partially-owned companies.....	297	251
Real estate and other fixed assets, net of accumulated depreciation (2001 -- \$2,206; 2000 -- \$2,101).....	3,561	3,578
Separate and variable accounts.....	28,466	31,328
Other assets.....	11,007	8,954
	-----	-----
Total assets.....	\$320,800	\$306,577
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
 CONSOLIDATED BALANCE SHEET -- (CONTINUED)
 (IN MILLIONS, EXCEPT SHARE AMOUNTS)

	MARCH 31, 2001	DECEMBER 31, 2000
	----- (UNAUDITED)	-----
LIABILITIES:		
Reserve for losses and loss expenses.....	\$ 40,715	\$ 40,613
Reserve for unearned premiums.....	12,582	12,510
Future policy benefits for life and accident and health insurance contracts.....	39,794	38,165
Policyholders' contract deposits.....	48,581	47,209
Other policyholders' funds.....	3,570	3,475
Reserve for commissions, expenses and taxes.....	2,968	2,807
Insurance balances payable.....	3,394	2,380
Funds held by companies under reinsurance treaties.....	1,412	1,435
Income taxes payable:		
Current.....	283	197
Deferred.....	2,772	1,873
Financial services and asset management liabilities:		
Borrowings under obligations of guaranteed investment agreements.....	13,819	13,595
Securities sold under agreements to repurchase, at contract value.....	11,596	11,308
Trading liabilities.....	4,553	4,352
Securities and spot commodities sold but not yet purchased, at market value.....	7,292	7,701
Unrealized loss on interest rate and currency swaps, options and forward transactions.....	9,438	8,581
Trust deposits and deposits due to banks and other depositors.....	2,232	1,895
Commercial paper.....	4,298	4,259
Notes, bonds and loans payable.....	19,706	17,923
Commercial paper.....	2,687	1,705
Notes, bonds, loans and mortgages payable.....	2,735	2,749
Separate and variable accounts.....	28,466	31,328
Minority interest.....	1,522	1,465
Other liabilities.....	13,454	8,086
	-----	-----
Total liabilities.....	277,869	265,611
	-----	-----
Preferred shareholders' equity in subsidiary companies....	1,179	1,347
	-----	-----
CAPITAL FUNDS:		
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued 2001 -- 2,475,663,919; 2000 -- 2,475,663,919.....	6,189	6,189
Additional paid-in capital.....	2,618	2,668
Retained earnings.....	35,749	34,304
Accumulated other comprehensive income.....	(1,256)	(2,136)
Treasury stock, at cost; 2001 -- 144,645,878; 2000 -- 142,950,798 shares of common stock.....	(1,548)	(1,406)
	-----	-----
Total capital funds.....	41,752	39,619
	-----	-----
Total liabilities and capital funds.....	\$320,800	\$306,577
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
 CONSOLIDATED STATEMENT OF INCOME
 (IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	----- (UNAUDITED)	
General insurance operations:		
Net premiums written.....	\$4,865	\$4,226
Change in unearned premium reserve.....	(143)	(119)
	-----	-----
Net premiums earned.....	4,722	4,107
Net investment income.....	716	663
Realized capital gains (losses).....	(21)	12
	-----	-----
	5,417	4,782
	-----	-----
Losses and loss expenses incurred.....	3,572	3,088
Underwriting expenses.....	894	807
	-----	-----
	4,466	3,895
	-----	-----
Operating income.....	951	887
	-----	-----
Life insurance operations:		
Premium income.....	3,506	3,278
Net investment income.....	1,921	1,671
Realized capital losses.....	(18)	(29)
	-----	-----
	5,409	4,920
	-----	-----
Death and other benefits.....	1,369	1,247
Increase in future policy benefits.....	2,198	2,059
Acquisition and insurance expenses.....	903	831
	-----	-----
	4,470	4,137
	-----	-----
Operating income.....	939	783
	-----	-----
Financial services operating income.....	329	281
Asset management operating income.....	111	104
Other realized capital losses.....	(12)	(4)
Other income (deductions) -- net.....	(46)	(60)
	-----	-----
Income before income taxes, minority interest and cumulative effect of an accounting change.....	2,272	1,991
	-----	-----
Income taxes -- Current.....	362	308
-- Deferred.....	303	282
	-----	-----
	665	590
	-----	-----
Income before minority interest and cumulative effect of an accounting change.....	1,607	1,401
	-----	-----
Minority interest.....	(69)	(55)
	-----	-----
Income before cumulative effect of an accounting change.....	1,538	1,346
	-----	-----
Cumulative effect of an accounting change, net of tax.....	(6)	--
	-----	-----
Net income.....	\$1,532	\$1,346
	=====	=====
Earnings per common share:		
Basic		
Income before cumulative effect of an accounting change.....	\$ 0.66	\$ 0.58
	=====	=====
Net income.....	\$ 0.66	\$ 0.58
	=====	=====
Diluted		
Income before cumulative effect of an accounting change.....	\$ 0.65	\$ 0.57
	=====	=====
Net income.....	\$ 0.65	\$ 0.57
	=====	=====
Cash dividends per common share.....	\$0.037	\$0.033
	=====	=====
Average shares outstanding:		
Basic.....	2,334	2,320
	-----	-----
Diluted.....	2,359	2,346
	-----	-----

AMERICAN INTERNATIONAL GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN MILLIONS)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	----- (UNAUDITED) -----	
Cash Flows From Operating Activities:		
Net Income.....	\$1,532	\$ 1,346
	-----	-----
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.....	1,526	2,029
Premiums and insurance balances receivable and payable -- net.....	119	(668)
Reinsurance assets.....	(889)	(267)
Deferred policy acquisition costs.....	(155)	(245)
Investment income due and accrued.....	162	(46)
Funds held under reinsurance treaties.....	(23)	(8)
Other policyholders' funds.....	95	142
Current and deferred income taxes -- net.....	389	241
Reserve for commissions, expenses and taxes.....	161	320
Other assets and liabilities -- net.....	773	(538)
Trading assets and liabilities -- net.....	460	(1,623)
Trading securities, at market value.....	583	(75)
Spot commodities, at market value.....	(120)	(81)
Net unrealized gain on interest rate and currency swaps, options and forward transactions.....	(861)	(396)
Securities purchased under agreements to resell.....	(664)	637
Securities sold under agreements to repurchase.....	288	117
Securities and spot commodities sold but not yet purchased, at market value.....	(409)	1,348
Realized capital losses.....	51	21
Equity in income of partially-owned companies and other invested assets.....	(92)	(39)
Depreciation expenses, principally flight equipment.....	293	275
Change in cumulative translation adjustments.....	(62)	49
Other -- net.....	(159)	(40)
	-----	-----
Total Adjustments.....	1,466	1,153
	-----	-----
Net cash provided by operating activities.....	\$2,998	\$ 2,499
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
 CONSOLIDATED STATEMENT OF CASH FLOWS -- (CONTINUED)
 (IN MILLIONS)

	THREE MONTHS ENDED	
	MARCH 31,	
	----- 2001	2000 -----
	(UNAUDITED)	
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed.....	\$ --	\$ 333
Cost of bonds, at market sold.....	7,718	7,063
Cost of bonds, at market matured or redeemed.....	1,766	1,652
Cost of equity securities sold.....	1,463	1,704
Realized capital losses.....	(51)	(21)
Purchases of fixed maturities.....	(13,113)	(10,779)
Purchases of equity securities.....	(1,361)	(1,725)
Mortgage, policy and collateral loans granted.....	(600)	(531)
Repayments of mortgage, policy and collateral loans.....	384	338
Sales of securities available for sale.....	1,298	2,483
Maturities of securities available for sale.....	237	476
Purchases of securities available for sale.....	(3,044)	(3,439)
Sales of flight equipment.....	1	2
Purchases of flight equipment.....	(1,256)	(954)
Net additions to real estate and other fixed assets.....	(94)	(120)
Sales or distributions of other invested assets.....	986	985
Investments in other invested assets.....	(1,492)	(1,443)
Change in short-term investments.....	(67)	76
Investments in partially-owned companies.....	(46)	--
	-----	-----
Net cash used in investing activities.....	(7,271)	(3,900)
	-----	-----
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits.....	1,372	89
Change in trust deposits and deposits due to banks and other depositors.....	337	99
Change in commercial paper.....	1,021	1,814
Proceeds from notes, bonds, loans and mortgages payable...	5,687	2,221
Repayments on notes, bonds, loans and mortgages payable...	(3,921)	(1,898)
Proceeds from guaranteed investment agreements.....	1,914	1,253
Maturities of guaranteed investment agreements.....	(1,690)	(1,540)
Redemption of subsidiary company preferred stock.....	(185)	--
Proceeds from common stock issued.....	25	47
Proceeds from subsidiary company preferred stock issued...	--	350
Cash dividends to shareholders.....	(87)	(78)
Acquisition of treasury stock.....	(197)	(911)
Other -- net.....	(6)	34
	-----	-----
Net cash provided by financing activities.....	4,270	1,480
	-----	-----
Change in cash.....	(3)	79
Cash at beginning of period.....	256	132
	-----	-----
Cash at end of period.....	\$ 253	\$ 211
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 (IN MILLIONS)

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	----- (UNAUDITED) -----	
Net income.....	\$1,532	\$1,346
Other comprehensive income:		
Unrealized appreciation of investments -- net of reclassification adjustments.....	983	15
Deferred income tax expense on changes.....	(399)	(23)
Foreign currency translation adjustments(a).....	(98)	49
Applicable income tax benefit on changes.....	22	19
Cumulative effect of an accounting change, net of tax(b).....	179	--
Net derivative losses arising from cash flow hedging activities.....	(140)	--
Deferred income tax expense on changes.....	(6)	--
Cumulative effect of an accounting change, net of tax(c).....	339	--
	-----	-----
Total.....	880	60
	-----	-----
Comprehensive income.....	\$2,412	\$1,406
	=====	=====

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

(b) Consists of derivative gains and losses arising from the adoption of FASB 133.

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

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2001
(UNAUDITED)

a) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair presentation of the results shown. All material intercompany accounts and transactions have been eliminated. For further information, refer to the Annual Report on Form 10-K of AIG for the year ended December 31, 2000 and the Statistical Supplement for the quarter ended March 31, 2001, which can be viewed on AIG's website at www.aig.com.

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

Cash dividends per common share reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000. The quarterly dividend rate per common share, commencing with the dividend paid September 15, 2000 is \$0.037.

c) Cash flow information for the three month periods ended March 31, 2001 and 2000 is as follows:

	2001	2000
	-----	-----
	(IN MILLIONS)	
Income taxes paid.....	\$209	\$311
Interest paid.....	\$721	\$592

d) Segment Information:

The following table summarizes the operations by major operating segment for the three month periods ended March 31, 2001 and 2000 (in millions):

	OPERATING SEGMENTS	
	2001	2000
	-----	-----
Revenues(1):		
General Insurance.....	\$ 5,417	\$ 4,782
Life Insurance.....	5,409	4,920
Financial Services.....	1,025	895
Asset Management.....	312	297
Other.....	(12)	(4)
Total.....	\$12,151	\$10,890
	=====	=====
Operating income:		
General Insurance.....	\$ 951	\$ 887
Life Insurance.....	939	783
Financial Services.....	329	281
Asset Management.....	111	104
Other.....	(58)	(64)
Total.....	\$ 2,272	\$ 1,991
	=====	=====

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

The following table summarizes AIG's general insurance operations by major reporting group for the three month periods ended March 31, 2001 and 2000 (in millions):

	GENERAL INSURANCE	
	2001	2000
	-----	-----
Revenues:		
Domestic Brokerage Group.....	\$3,046	\$2,501
Foreign General.....	1,560	1,551
Other.....	811	730

Total.....	----- \$5,417 =====	----- \$4,782 =====
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GENERAL INSURANCE

	2001	2000
Operating income before realized capital gains (losses)(1):		
Domestic Brokerage Group.....	\$ 553	\$ 459
Foreign General.....	299	261
Other.....	120	155
Total.....	\$ 972	\$ 875

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

The following table summarizes AIG's life insurance operations by major reporting group for the three month periods ended March 31, 2001 and 2000 (in millions):

LIFE INSURANCE

	2001	2000
Revenues:		
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	\$2,463	\$2,268
American Life Insurance Company.....	1,402	1,372
Domestic Life.....	1,413	1,166
Other.....	131	114
Total.....	\$5,409	\$4,920
Operating income before realized capital gains (losses)(1):		
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	\$ 363	\$ 313
American Life Insurance Company.....	210	182
Domestic Life.....	364	299
Other.....	20	18
Total.....	\$ 957	\$ 812

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

The following table summarizes AIG's financial services operations by major reporting group for the three month periods ended March 31, 2001 and 2000 (in millions):

FINANCIAL SERVICES

	2001	2000
Revenues:		
International Lease Finance Corporation	\$ 621	\$550
AIG Financial Products Corp.	248	212
AIG Trading Group Inc.	39	73
Other.....	117	60
Total.....	\$1,025	\$895
Operating income:		
International Lease Finance Corporation	\$ 160	\$139
AIG Financial Products Corp.	165	139
AIG Trading Group Inc.	7	22
Other.....	(3)	(19)
Total.....	\$ 329	\$281

e) Statement of Accounting Standards No. 130 "Comprehensive Income" (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 \$(51) million and \$(21) million for the first three months of 2001 and 2000, respectively.

f) Accounting Standards:

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

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

On the date the derivative contract is entered into, AIG designates the derivative as: (1) a hedge of the subsequent changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (2) a hedge of a forecasted transaction, or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) a hedge of a net investment in a foreign operation. Fair value and cash flow hedges may involve foreign currencies ("foreign currency hedges"). The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a fair value hedge is recorded in current period earnings along with the loss or gain on the hedged item attributable to the hedged risk. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a cash flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a hedge of a net investment in a foreign operation is recorded in the foreign currency translation adjustments account within other comprehensive income. Changes in the fair value of derivatives used for other than the above hedging activities are reported in current period earnings.

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

AIG adopted FASB 133 on January 1, 2001. In accordance with the transition provisions of FASB 133, AIG recorded in its first quarter 2001 consolidated income statement a cumulative effect of an accounting change adjustment loss of \$6 million. This loss represents the net fair value of all previously unrecorded derivative instruments as of January 1, 2001, net of tax and after the application of hedge accounting. AIG also recorded in its first quarter of 2001 consolidated statement of comprehensive income a cumulative effect of an accounting change adjustment gain of \$179 million. This gain represents the increase in other comprehensive income, net of taxes, arising from recognizing the fair value of all derivative contracts designated as cash flow hedging instruments, and to a lesser extent, hedging instruments used to hedge net investments in foreign operations.

AIG (excluding its two trading operations, AIGFP and AIGTG) uses derivative instruments (principally swap and forward contracts) to hedge risk exposures to interest rate and foreign currency risks. These risks arise primarily from available-for-sale fixed income securities, debt, policyholder account balance liabilities associated with guaranteed investment contracts and net investments in foreign operations. Other hedging activities, such as those involving forecasted transactions or equity securities, are not significant. During the first three months of 2001, there were no hedges that were discontinued or otherwise no longer qualify as hedges under FASB 133. With respect to fair value hedges, net income for the first three months reflected a net \$8 million gain from hedge ineffectiveness. With respect to cash flow hedges, such ineffectiveness amounted to a net loss of \$2 million. There were minor reclassifications to earnings from other comprehensive income under cash flow hedge accounting. These reclassifications were connected to a program of synthetically converting certain fixed income securities from a floating interest rate to a fixed interest rate. The maximum amount of net derivative losses to be reclassified into net income within the next twelve months is insignificant. The maximum length of time over which future cash flows are hedged is approximately 9 years.

In addition to hedging activities, AIG also uses derivative instruments with respect to investment operations, which include, among other things, writing option contracts, and purchasing investments with embedded derivatives, such as equity aligned notes and convertible bonds. All changes in the market value of these derivatives are recorded in earnings. AIG bifurcates an embedded derivative where: (1) the economic characteristics of the embedded instruments are not clearly and closely related to those of the remaining components of the financial instrument; and (2) a separate instrument with the same terms as the embedded instrument meets the definition of a derivative.

In accordance with the transition provisions of FASB 133, AIG transferred bonds in the held to maturity, at amortized cost category into the bonds available for sale, at market value category. The amortized cost of the bonds transferred was \$11.53 billion. The unrealized appreciation, net of deferred tax expense was approximately \$339 million at the date of transfer and was recorded as a cumulative effect of an accounting change within other

comprehensive income. Under the provisions of FASB 133, such a transfer does not affect AIG's intent nor its ability to hold current or future bonds to their maturity.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

OPERATIONAL REVIEW

GENERAL INSURANCE OPERATIONS

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

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

Commencing with AIG's acquisition of HSB in November 2000, HSB was consolidated into AIG's financial statements.

DBG is AIG's 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.

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

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

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

General insurance operations for the three month periods ending March 31, 2001 and 2000 were as follows:

(in millions)

	2001	2000

Net premiums written*:		
Domestic	\$3,403	\$2,788
Foreign	1,462	1,438

Total	\$4,865	\$4,226

Net premiums earned*:		
Domestic	\$3,331	\$2,720
Foreign	1,391	1,387

Total	\$4,722	\$4,107

Adjusted underwriting profit*:		
Domestic	\$ 133	\$ 106
Foreign	123	106

Total	\$ 256	\$ 212

Net investment income:		
Domestic	\$ 540	\$ 508
Foreign	176	155

Total	\$ 716	\$ 663

Operating income before realized capital gains (losses)*:		
Domestic	\$ 673	\$ 614
Foreign	299	261

Total	972	875
Realized capital gains (losses)	(21)	12

Operating income	\$ 951	\$ 887

* Reflects the realignment of certain internal divisions in 2000.

During the first three months of 2001, net premiums written and net premiums earned increased 15.1 percent and 15.0 percent, respectively, from those of 2000. During the first three months of 2001, AIG cancelled or non-renewed approximately \$71 million of business worldwide that did not meet AIG's underwriting standards.

General insurance domestic net premiums written and net premiums earned for the three month periods ended March 31, 2001 and 2000 were as follows:

(in millions)

	2001	2000

Net premiums written:		
DBG*	\$2,650	\$2,078
Personal Lines	634	601
Mortgage Guaranty	119	109

Total*	\$3,403	\$2,788

Net premiums earned:		
DBG*	\$2,581	\$2,042
Personal Lines	630	568
Mortgage Guaranty	120	110

Total*	\$3,331	\$2,720

* Reflects the realignment of certain internal divisions in 2000.

Commencing in the latter part of 1999 and continuing through 2001, the commercial property-casualty market place has experienced rate increases. Virtually all areas of DBG have experienced rate increases. Overall, DBG's net premiums written increased \$572 million or 27.5 percent in 2001 over 2000.

Personal Lines' net premiums written increased 5.5 percent or \$33 million in the first three months of 2001 over 2000. The growth in 2001 primarily

resulted from an increase in the number of policies issued with respect to preferred, standard and non-standard auto risks and increased rates.

Growth of 1.6 percent and 0.3 percent for foreign general insurance net premiums written and net premiums earned, respectively, in the first three months of 2001 over 2000 reflect growth of operations in the United Kingdom, Continental Europe and the Far East. Foreign general insurance operations produced 30.1 percent of the general insurance net premiums written in the first three months of 2001 and 34.0 percent in 2000.

In comparing the foreign currency exchange rates used to translate the results of AIG's foreign general operations during the first three months of 2001 to those foreign currency exchange rates used to translate AIG's foreign general results during the same period of 2000, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of the preparation of the consolidated financial statements, total general insurance net premiums written were approximately 2.2 percentage points less than they would have been if translated utilizing those foreign currency exchange rates which prevailed during that same period of 2000.

Because of the nature and diversity of AIG's operations and the continuing rapid changes in the insurance industry worldwide, together with the factors discussed above, it is difficult to assess further or project future growth in AIG's net premiums written and reserve for losses and loss expenses.

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

net premiums earned until the end of the policy period.

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

	2001	2000

Domestic:		
Loss Ratio	80.92	81.02
Expense Ratio	16.01	16.35

Combined Ratio	96.93	97.37

Foreign:		
Loss Ratio	63.01	63.79
Expense Ratio	30.13	28.73

Combined Ratio	93.14	92.52

Consolidated:		
Loss Ratio	75.64	75.21
Expense Ratio	20.25	20.57

Combined Ratio	95.89	95.78

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

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

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

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

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

The adjusted underwriting profits were \$256 million in the first three months of 2001 and \$212 million in the same period of 2000. Domestic adjusted underwriting profit increased primarily as a result of the disciplined underwriting of DBG. The regulatory, product type and competitive environment as well as the degree of litigation activity in any one country varies significantly. These factors have a direct impact on pricing and consequently profitability as reflected by adjusted underwriting profit and statutory general insurance ratios.

AIG's results reflect the net impact of incurred losses from catastrophes approximating \$18 million and \$25 million in the first three months of 2001 and 2000, respectively. AIG's gross incurred losses from catastrophes approximated \$58 million and \$89 million in 2001 and 2000, respectively. The impact of losses caused by catastrophes can fluctuate widely from period to period, making comparisons of recurring type business more difficult. The pro forma table below excludes catastrophe losses in order to present comparable results of AIG's recurring core underwriting operations. The pro forma

consolidated statutory general insurance ratios would be as follows:

	2001	2000
Loss Ratio	75.26	74.60
Expense Ratio	20.25	20.57
Combined Ratio	95.51	95.17

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

General insurance net investment income in the first three months of 2001 increased 7.9 percent when compared to the same period of 2000. The growth in net investment income in 2001 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.)

General insurance realized capital losses were \$21 million in the first three months of 2001 and realized capital gains were \$12 million in 2000. These realized capital gains and losses resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first three months of 2001 increased 7.3 percent when compared to the same period of 2000. The contribution of general insurance operating income to income before income taxes, minority interest and cumulative effect of an accounting change was 41.9 percent in 2001 compared to 44.5 percent in 2000.

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

AIG's general reinsurance assets amounted to \$23.78 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at March 31, 2001 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, 2000, approximately 43 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 57 percent of the general reinsurance assets were from authorized reinsurers and over 95 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Through March 31, 2001, these distribution percentages have not significantly changed.

AIG's allowance for estimated unrecoverable reinsurance has not significantly changed from December 31, 2000 when AIG had allowances for unrecoverable reinsurance approximating \$76 million. At that date AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

AIG enters into certain intercompany reinsurance transactions for its general and life operations.

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

At March 31, 2001, the consolidated general reinsurance assets of \$23.78 billion include reinsurance recoverables for paid losses and loss expenses of \$3.74 billion and \$15.70 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 March 31, 2001 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 March 31, 2001, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$40.72 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and amounts of discounting related to certain workers' compensation claims. At March 31, 2001, general insurance net loss reserves increased \$63 million from prior year end to \$25.01 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at March 31, 2001. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on future results of operations.

In a very broad sense, the general loss reserves can be categorized into two distinct groups: one group being long tail casualty lines of business. Such lines include excess and umbrella liability, directors and officers' liability, professional liability, medical malpractice, general liability, products' liability, and related classes. These lines account for approximately one-half of net losses and loss expenses. The other group is short tail lines of business consisting principally of property lines, certain classes of casualty lines and includes personal lines.

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

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

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

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

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter referred to collectively as environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG 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 potential Congressional reauthorization of Superfund dramatically changes the current program.

In the interim, AIG and other industry members have and will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at March 31, 2001 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. In the future, if the environmental claims develop deficiently, such deficiency would have an adverse impact on future results of operations. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at March 31, 2001 and 2000 was as follows:

(in millions)

	2001		2000	
	GROSS	NET	GROSS	NET
Asbestos:				
Reserve for losses and loss expenses at beginning of year	\$1,100	\$338	\$1,093	\$306
Losses and loss expenses incurred	108	22	16	7
Losses and loss expenses paid	(110)	(39)	(127)	(25)
Reserve for losses and loss expenses at end of period	\$1,098	\$321	\$ 982	\$288
Environmental:				
Reserve for losses and loss expenses at beginning of year	\$1,345	\$517	\$1,519	\$585
Losses and loss expenses incurred	(28)	(18)	9	6
Losses and loss expenses paid	(76)	(27)	(42)	(21)

Reserve for losses and loss expenses at end of period	\$1,241	\$472	\$1,486	\$570
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(in millions)

	2001		2000	
	GROSS	NET	GROSS	NET
Combined:				
Reserve for losses and loss expenses at beginning of year	\$2,445	\$855	\$2,612	\$891
Losses and loss expenses incurred	80	4	25	13
Losses and loss expenses paid	(186)	(66)	(169)	(46)
Reserve for losses and loss expenses at end of period	\$2,339	\$793	\$2,468	\$858

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at March 31, 2001 and December 31, 2000 were estimated as follows:

(in millions)

	2001		2000	
	GROSS	NET	GROSS	NET
Combined	\$1,039	\$312	\$1,042	\$314

A summary of asbestos and environmental claims count activity for the three month periods ended March 31, 2001 and 2000 was as follows:

	2001			2000		
	ASBESTOS	ENVIRONMENTAL	COMBINED	ASBESTOS	ENVIRONMENTAL	COMBINED
Claims at beginning of year	6,796	11,323	18,119	6,746	13,432	20,178
Claims during year:						
Opened	178	467	645	182	497	679
Settled	(19)	(529)	(548)	(33)	(164)	(197)
Dismissed or otherwise resolved	(144)	(949)	(1,093)	(81)	(618)	(699)
Claims at end of period	6,811	10,312	17,123	6,814	13,147	19,961

The average cost per claim settled, dismissed or otherwise resolved for the three month periods ended March 31, 2001 and 2000 was as follows:

	2001		2000	
	GROSS	NET	GROSS	NET
Asbestos	\$674,800	\$239,300	\$1,114,000	\$219,300
Environmental	51,400	18,300	53,700	26,900
Combined	113,300	40,200	188,600	51,300

A.M. Best, an insurance rating agency, has developed a survival ratio to measure the number of years it would take a company to exhaust both its asbestos and environmental reserves for losses and loss expenses based on that company's current level of asbestos and environmental claims payments. This is a ratio derived by taking the current ending losses and loss expense reserves and dividing by the average annual payments for the prior three years. Therefore, the ratio derived is a simplistic measure of an estimate of the number of years it would be before the current ending losses and loss expense reserves would be paid off using recent average payments. The higher the ratio, the more years the reserves for losses and loss expenses cover these claims payments. These ratios are computed based on the ending reserves for losses and loss expenses over the respective claims settlements during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted,

however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments thereof and the resultant ratio.

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

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

AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average pay-

ment. These ratios at March 31, 2001 and 2000 were as follows:

	2001		2000	
	GROSS	NET	GROSS	NET
Involuntary survival ratios:				
Asbestos	1.6	2.3	1.8	3.5
Environmental	10.3	9.7	13.7	13.3
Combined	3.4	5.0	4.4	7.7

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 2000 were \$15 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 2001.

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

LIFE INSURANCE OPERATIONS

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

AIG's three principal overseas life operations are American Life Insurance Company (ALICO), American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA) and Nan Shan Life Insurance Company, Ltd. (Nan Shan). ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan. AIG's domestic life operations are comprised of two separate operations, AIG's domestic life companies and the life insurance subsidiaries of SunAmerica Inc. (SunAmerica), a Delaware corporation which owns substantially all of the subsidiaries which were owned by SunAmerica Inc., the Maryland corporation which was merged into AIG in January 1999. Both of these operations sell primarily financial and investment type products. (See also Note (d) of Notes to Financial Statements.)

Life insurance operations for the three month periods ending March 31, 2001 and 2000 were as follows:

(in millions)

	2001	2000
Premium income:		
Domestic	\$ 374	\$ 286
Foreign	3,132	2,992
Total	\$ 3,506	\$ 3,278
Net investment income:		
Domestic	\$ 1,059	\$ 924
Foreign	862	747
Total	\$ 1,921	\$ 1,671
Operating income before realized capital losses:		
Domestic	\$ 364	\$ 299
Foreign	593	513
Total	957	812
Realized capital losses	(18)	(29)

Operating income	\$ 939	\$ 783
Life insurance in-force:*		
Domestic	\$ 92,167	\$ 88,743
Foreign	498,530	494,316
Total	\$590,697	\$583,059

* Amounts presented were as at March 31, 2001 and December 31, 2000, respectively.

AIG's life premium income during the first three months of 2001 represented a 7.0 percent increase from the same period in 2000. Foreign life operations produced 89.3 percent and 91.3 percent of the life premium income in 2001 and 2000, respectively.

The traditional life products, particularly individual life products, were major contributors to the growth in foreign premium income. These tradi-

tional life products, coupled with the increased distribution of financial and investment products contributed to the growth in foreign investment income. A mixture of traditional, accident and health and financial products are being sold in Japan through ALICO.

As previously discussed, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, for the first three months of 2001, when foreign life premium income was translated into U.S. dollars for purposes of the preparation of the consolidated financial statements, total life premium income was approximately 5.7 percentage points less than it would have been if translated utilizing exchange rates prevailing in 2000.

Life insurance net investment income increased 14.9 percent during the first three months of 2001. The growth in net investment income was primarily attributable to both foreign and domestic new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

Life insurance realized capital losses for the first three months were \$18 million in 2001 and \$29 million in 2000. These realized capital losses resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income during the first three months of 2001 increased 19.8 percent to \$939 million. Excluding realized capital losses from life insurance operating income, the percent increase would be 17.8 percent. The contribution of life insurance operating income to income before income taxes, minority interest and cumulative effect of an accounting change amounted to 41.3 percent during the first three months of 2001 compared to 39.3 percent in the same period of 2000.

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

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

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of the related policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the initial investments may be at a yield below that of the interest required for the accretion of the policy liabilities. At December 31, 2000, the average duration of the investment portfolio in Japan was 6.0 years.

Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities. The anticipated average period for the receipt and investment of these future premium receipts is 6.1 years. These durations compare with an estimated average duration of 10.4 years for the corresponding policy liabilities. These durations have not changed significantly

during 2001. To maintain an adequate yield to match the interest necessary to support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. (See also the discussion under "Liquidity" herein.)

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 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. Also, ILFC provides, for a fee, fleet management services to certain third-party operators. (See also Note (d) of Notes to Financial Statements.)

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

Financial services operations for the three month periods ending March 31, 2001, and 2000 were as follows:

(in millions)

	2001	2000
Revenues:		
International Lease Finance Corporation	\$ 621	\$ 550
AIG Financial Products Corp.*	248	212
AIG Trading Group Inc.*	39	73
Other	117	60
Total	\$1,025	\$ 895
Operating income:		
International Lease Finance Corporation	\$ 160	\$ 139
AIG Financial Products Corp.	165	139
AIG Trading Group Inc.	7	22
Other, including intercompany adjustments	(3)	(19)
Total	\$ 329	\$ 281

* Represents commissions, transaction and other fees.

Financial services operating income increased 17.0 percent in the first three months of 2001 over 2000.

Financial services operating income represented 14.5 percent of AIG's income before income taxes, minority interest and cumulative effect of an accounting change in the first three months of 2001. This compares to 14.1 percent in the same period of 2000.

ILFC generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in the first three months of 2001 increased 13.1 percent from the same period of 2000. The revenue growth resulted primarily from the increase in flight equipment available for operating lease and the increase in the relative cost of the leased fleet. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During the first three months of 2001, operating income increased 15.7 percent from the same period of 2000. ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing

rates at the end of the first three months of 2001 and 2000 were 5.92 percent and 6.12 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (d) 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 March 31, 2001, there were 404 aircraft subject to operating leases and there was one aircraft off lease. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIGFP participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in the first three months of 2001 increased 16.6 percent from the same period of 2000. During the first three months of 2001, operating income increased 18.5 percent from the same period of 2000. 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 (d) of Notes to Financial Statements.)

AIGTG derives 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 the first three months of 2001 decreased 46.8 percent from the same period of 2000. During the first three months of 2001, operating income decreased 70.2 percent from the same period of 2000. 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 (d) of Notes to Financial Statements.)

AIG Consumer Finance Group, Inc., through its subsidiaries, is engaged in developing a multi-product consumer finance business with an emphasis on emerging markets.

ASSET MANAGEMENT OPERATIONS

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

AIG's three principal asset management operations are SunAmerica's asset management operations (SAAMCo), AIG Global Investment Group, Inc. and its subsidiaries (Global Investment) and AIG Capital Partners, Inc. (Cap Partners). SAAMCo develops and sells variable annuities and other investment products, sells and manages mutual funds and provides financial services. Global Investment manages third-party institutional, retail and private equity funds invested assets on a global basis, and provides custodial services. Cap Partners organizes, and manages the invested assets of institutional investment funds and may also invest in such funds. Each of these subsidiary operations receives fees for investment products and services provided.

Asset management operations for the three month periods ending March 31, 2001 and 2000 were as follows:

(in millions)

	2001	2000
Revenues	\$312	\$297
Operating income	111	104

Asset management operating income in the first three months of 2001 increased 7.2 percent when compared to the same period of 2000.

Asset management operating income represented 4.9 percent of AIG's income before income taxes, minority interest and cumulative effect of an accounting change in the first three months of 2001. This compares to 5.2 percent in the same period of 2000.

At March 31, 2001, AIG's third party assets under management, including both retail mutual funds and institutional accounts, approximated \$33 billion.

OTHER OPERATIONS

Other realized capital losses amounted to \$12 million, and \$4 million in the first three months of 2001 and 2000, 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, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In the first three months of 2001, net deductions amounted to \$46 million. In the same period of 2000, net deductions amounted to \$60 million.

Income before income taxes, minority interest and cumulative effect of an accounting change amounted to \$2.27 billion in the first three months of 2001. Income before income taxes and minority interest amounted to \$1.99 billion in the same period of 2000.

In the first three months of 2001, AIG recorded a provision for income taxes of \$665 million compared to the provision of \$590 million in the same period of 2000. These provisions represent effective tax rates of 29.3 percent in the first three months of 2001, and 29.6 percent in the same period of 2000.

Minority interest represents minority shareholders' equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to \$69 million and \$55 million in the first three months of 2001 and 2000, respectively.

Income before the cumulative effect of an accounting change amounted to \$1.54 billion in the first three months of 2001 and \$1.35 billion in the same period of 2000.

The cumulative effect of an accounting change resulted from the adoption of Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" and Statement of Financial Accounting Standards No. 138 "Accounting for Derivative Instruments and Hedging Activities -- an amendment of FASB Statement No. 133" (collectively, FASB 133).

Net income amounted to \$1.53 billion in the first three months of 2001 and \$1.35 billion in the same period of 2000. The increases in net income over the periods resulted from those factors described above.

CAPITAL RESOURCES

At March 31, 2001, AIG had total capital funds of \$41.75 billion and total borrowings of \$43.25 billion. At that date, \$38.44 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 March 31, 2001 and December 31, 2000 were as follows:

(in millions)

	2001	2000
GIAs -- AIGFP	\$13,819	\$13,595
Commercial Paper:		
AIG Funding, Inc.	2,543	968
ILFC(a)	4,298	4,259
A.I. Credit Corp.	--	597
AIG Finance (Taiwan) Limited(a)	107	104
AIG Credit Card Company (Taiwan)(a)	37	36
Total	6,985	5,964
Medium Term Notes:		
ILFC(a)	3,259	3,175
AIG	527	582
Total	3,786	3,757
Notes and Bonds Payable:		
ILFC(a)	6,099	5,529
AIGFP	9,901	8,755
AIG	723	720
Total	16,723	15,004
Loans and Mortgages Payable:		
ILFC(a)(b)	447	463
AIG Finance (Hong Kong) Limited(a)	367	346
AIG Consumer Finance Group, Inc.(a)	701	662
AIG	417	440
Total	1,932	1,911
Total Borrowings	43,245	40,231
Borrowings not guaranteed by AIG	15,315	14,574

Matched GIA borrowings	13,819	13,595
Matched notes and bonds payable --		
AIGFP	9,310	8,127
- - - - -		
	38,444	36,296
- - - - -		
Remaining borrowings of AIG	\$ 4,801	\$ 3,935
- - - - -		

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

The maturity distributions of total borrowings at March 31, 2001 and December 31, 2000 were as follows:

(in millions)

	2001	2000
Short-term borrowings	\$17,686	\$14,989
Long-term borrowings(a)	25,559	25,242
Total borrowings	\$43,245	\$40,231

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

During the first three months of 2001, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to \$9.90 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under "Operational Review", "Liquidity" and "Derivatives" herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC and A.I. Credit Corp. (AICCO) as well as AIG Credit Card Company (Taiwan) -- (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited -- (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, have issued commercial paper for the funding of their own operations. At March 31, 2001, AIG did not guarantee or support the commercial paper of any of its subsidiaries other than Funding. In early 2001, AICCO ceased issuing commercial paper under its program and the agreement which AIG had provided supporting the commercial paper was terminated; AICCO's funding requirements are now met through Funding's program. (See also the discussion under "Derivatives" herein.)

AIG and Funding have entered into syndicated revolving credit facilities (collectively, the Facility) aggregating \$1.5 billion. The Facility consists of \$1.0 billion in short-term revolving credit facilities and a \$500 million five year revolving credit facility. The Facility can be used for general corporate purposes and also to provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under the Facility, nor were any borrowings outstanding as of March 31, 2001.

At March 31, 2001, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to \$9.36 billion, a net increase of \$654 million, and recorded a net decline in its capital lease obligations of \$16 million and a net increase in its commercial paper of \$39 million. At March 31, 2001, ILFC had \$950 million in aggregate principal amount of debt securities registered for issuance from time to time. In addition, ILFC has a Euro Medium Term Note Program for \$2.0 billion, under which \$771 million in notes were sold through March 31, 2001. On May 4, 2001, ILFC registered an additional \$4.0 billion principal amount of debt securities for issuance from time to time.

ILFC has a \$4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft to be delivered through 2001. ILFC has the right, but is not required, to use the facility to fund 85 percent of each aircraft's purchase price. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on the first 75 aircraft depending on the delivery date of the aircraft. Through March 31, 2001, ILFC borrowed \$2.2 billion under this facility. Borrowings with respect to this facility are included in Notes and Bonds Payable in the accompanying table of borrowings.

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

During the first three months of 2001, AIG did not issue any Medium Term Notes and \$55 million of previously issued notes matured. At March 31, 2001, AIG had \$781 million in aggregate principal amount of debt securities registered for issuance from time to time. In early 2001, AIG established a new Medium Term Note program under which these securities may be issued, and \$29 million of Medium Term Notes were issued on May 11, 2001.

AIG's capital funds increased \$2.13 billion during the first three months of 2001. Unrealized appreciation of investments, net of taxes increased \$584 million. During the first three months of 2001, the cumulative translation adjustment loss, net of taxes, increased \$76 million. The change from period to period with respect to the unrealized appreciation of investments, net of taxes was primarily impacted by the decline in domestic interest rates. The transfer of bonds in the held to maturity, at amortized cost category to the bonds available for sale, at market value category in accordance with the transition provisions of FASB 133 resulted in a gain of \$339 million recorded in the statement of comprehensive income as a cumulative effect of an accounting change adjustment. (See also the discussion under "Operational Review" and "Liquidity" herein.) Capital funds also includes a cumulative effect of an accounting change adjustment gain of \$179 million and current period loss of \$146 million, net of taxes relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under Notes to Financial Statements and the Consolidated Statement of Comprehensive Income.) Retained earnings increased \$1.45 billion, resulting from net income less dividends.

During the period from January 2001 through March 31, 2001, AIG repurchased in the open market 2,545,000 shares of its common stock. AIG intends to continue to buy its common shares in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans.

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 March 31, 2001, 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.)

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At March 31, 2001, 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. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may impact AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's net financial exposure at that time in that country.

LIQUIDITY

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

At March 31, 2001, AIG's consolidated invested assets included \$6.15 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 2001 amounted to \$3.00 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 \$4.3 billion in pre-tax cash flow during the first three months of 2001. 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 \$2.7 billion in investment income cash flow during the first three months of 2001. 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 \$5.52 billion in cash and short-term investments at March 31, 2001. 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 \$11 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately \$14 billion of fixed income securities and marketable equity securities during the first three months of 2001.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued of \$2.26 billion and \$2.42 billion and real estate of \$1.84 billion and \$1.87 billion, at March 31, 2001 and December 31, 2000, respectively:

(dollars in millions)

	MARCH 31, 2001		December 31, 2000	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
General insurance	\$ 43,353	18.7%	\$ 42,892	19.6%
Life insurance	106,989	46.1	98,711	45.0
Financial services and asset management	81,087	34.9	76,748	35.0
Other	789	0.3	831	0.4
Total	\$232,218	100.0%	\$219,182	100.0%

INSURANCE INVESTED ASSETS

The following tables summarize the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at March 31, 2001 and December 31, 2000:

(dollars in millions)

MARCH 31, 2001	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION	
					DOMESTIC	FOREIGN
Fixed maturities:						
Available for sale, at market value(a)	\$30,215	\$ 77,610	\$107,825	71.7%	57.8%	42.2%
Equity securities, at market value(b)	4,297	2,341	6,638	4.4	53.7	46.3
Mortgage loans on real estate, policy and collateral loans	70	10,700	10,770	7.2	58.8	41.2
Short-term investments, including time deposits, and cash	1,390	4,134	5,524	3.7	45.2	54.8
Real estate	414	1,333	1,747	1.2	16.7	83.3
Investment income due and accrued	582	1,602	2,184	1.4	51.1	48.9
Other invested assets	6,385	9,269	15,654	10.4	76.8	23.2
Total	\$43,353	\$106,989	\$150,342	100.0%	58.6%	41.4%

(a)Includes \$791 million of bonds trading securities, at market value.

(b)Includes \$1.15 billion of non-redeemable preferred stocks, at market value.

(dollars in millions)

December 31, 2000	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution	
					Domestic	Foreign
Fixed maturities:						
Available for sale, at market value(a)	\$18,168	\$72,159	\$ 90,327	63.8%	51.8%	48.2%
Held to maturity, at amortized cost	11,533	--	11,533	8.1	100.0	--
Equity securities, at market value(b)	4,666	2,309	6,975	4.9	55.4	44.6
Mortgage loans on real estate, policy and collateral loans	65	10,563	10,628	7.5	58.6	41.4
Short-term investments, including time deposits, and cash	1,448	4,066	5,514	3.9	44.8	55.2
Real estate	408	1,359	1,767	1.3	16.6	83.4
Investment income due and accrued	584	1,689	2,273	1.6	46.8	53.2
Other invested assets	6,020	6,566	12,586	8.9	88.3	11.7
Total	\$42,892	\$98,711	\$141,603	100.0%	58.9%	41.1%

(a)Includes \$846 million of bonds trading securities, at market value.

(b)Includes \$1.04 billion of non-redeemable preferred stocks, 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 comprehensive income in unrealized appreciation of investments, net of taxes.

At March 31, 2001, approximately 58 percent of the fixed maturities investments were domestic securities. Approximately 36 percent of such domestic securities were rated AAA. Approximately 13 percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At March 31, 2001, approximately 11 percent of the foreign fixed income investments were either rated AAA or, on the

were equivalent from a credit standpoint to securities so rated. Approximately 17 percent were below investment grade or not rated at that date. A large portion of the foreign insurance fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

At March 31, 2001, approximately 18 percent of the fixed maturities portfolio was collateralized mortgage obligations (CMOs), including commercial mortgage backed securities. Substantially all of the CMOs were investment grade and approximately 12 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.

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

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

Mortgage loans on real estate, policy and collateral loans comprised 7.2 percent of AIG's insurance invested assets at March 31, 2001. AIG's insurance operations' holdings of real estate mortgages amounted to \$6.81 billion of which 78.7 percent was domestic. At March 31, 2001, only a nominal amount were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At March 31, 2001, AIG's insurance holdings of collateral loans amounted to \$841 million, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans increased from \$3.03 billion at December 31, 2000 to \$3.12 billion at March 31, 2001.

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, AIG and 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 March 31, 2001 and December 31, 2000. AIG's methodology for calculating VaR and the results of the calculations presented herein were performed using historical simulation. Using historical simulation over the delta-normal approach does not significantly change the results of this disclosure. The historical simulation methodology entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure). A one month holding period was assumed in computing the VaR figure.

The following table presents the VaR on a combined basis and of each component of market risk for each of AIG's insurance segments as of March 31, 2001 and December 31, 2000. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

(in millions)

MARKET RISK	GENERAL INSURANCE		LIFE INSURANCE	
	2001	2000	2001	2000
Combined	\$815	\$744	\$1,041	\$1,162
Interest rate	464	454	1,081	1,119
Currency	50	59	263	373
Equity	805	603	290	293

The following table presents the average, high and low VaRs on a combined basis and of each component of market risk for each of AIG's insurance segments as of March 31, 2001 and December 31, 2000.

(in millions)

	2001			2000		
	AVERAGE	HIGH	LOW	AVERAGE	HIGH	LOW
GENERAL INSURANCE						
Market Risk						
Combined	\$ 780	\$ 815	\$ 744	\$ 811	\$ 954	\$ 737
Interest rate	459	464	454	419	454	338
Currency	55	59	50	49	65	29
Equity	704	805	603	694	828	603
LIFE INSURANCE						
Market Risk						
Combined	\$1,101	\$1,162	\$1,041	\$1,157	\$1,211	\$1,105
Interest rate	1,100	1,119	1,081	1,094	1,206	950
Currency	318	373	263	430	566	372
Equity	291	293	290	315	396	293

FINANCIAL SERVICES AND ASSET MANAGEMENT INVESTED ASSETS

The following table is a summary of the composition of AIG's financial services and asset management invested assets at March 31, 2001 and December 31, 2000. (See also the discussions under "Operational Review: Financial Services Operations", "Operational Review: Asset Management Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in millions)

	2001		2000	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
Flight equipment primarily under operating leases, net of accumulated depreciation	\$20,398	25.2%	\$19,325	25.2%
Unrealized gain on interest rate and currency swaps, options and forward transactions	11,953	14.7	10,235	13.3
Securities available for sale, at market value	16,173	19.9	14,669	19.1
Trading securities, at market value	6,764	8.3	7,347	9.6
Securities purchased under agreements to resell, at contract value	15,630	19.3	14,979	19.5
Trading assets	6,786	8.4	7,045	9.2
Spot commodities, at market value	483	0.6	363	0.5
Other, including short-term investments	2,900	3.6	2,785	3.6
Total	\$81,087	100.0%	\$76,748	100.0%

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During the first three months of 2001, ILFC acquired flight equipment costing \$1.26 billion.

ILFC is exposed to market risk and the risk of loss of fair value resulting from adverse fluctuations in interest rates. As of March 31, 2001 and December 31, 2000, 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 March 31, 2001 and December 31, 2000. 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 March 31, 2001 and December 31, 2000, the VaR with respect to the aforementioned net fair value of ILFC was approximately \$13 million and \$11 million, respectively.

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 March 31, 2001, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with \$182 million of these securities. There were no securities deemed below investment grade at March 31, 2001. There have been no significant downgrades through May 1, 2001. 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 March 31, 2001 were as follows:

(in millions)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value	\$ 897	\$ 865
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions(a)(b)	11,953	9,438
Trading assets	10,675	8,193
Spot commodities, at market value	31	--
Trading liabilities	--	2,742
Securities and spot commodities sold but not yet purchased, at market value	614	--

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

(b)At March 31, 2001, AIGTG's replacement values with respect to interest rate and currency swaps were \$589 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 March 31, 2001, the unrealized gains and losses remaining after the benefit of the offsets were \$40 million and \$8 million, respectively.

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

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

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

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.

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.

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 March 31, 2001 and December 31, 2000. AIG's methodology for calculating VaR and the results of the calculations presented herein were performed using historical simulation. Using historical simulation over the delta-normal approach does not significantly change the results of this disclosure. The historical simulation methodology entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure).

The following table presents the VaR on a combined basis and of each component of AIGFP's and AIGTG's market risk as of March 31, 2001 and December 31, 2000. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

(in millions)

MARKET RISK	AIGFP(A)		AIGTG(B)	
	2001	2000	2001	2000
Combined	\$10	\$15	\$3	\$6
Interest rate	10	15	3	4
Currency	1	--	1	3
Equity/Commodity	1	--	--	--

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

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

The following table presents the average, high and low VaRs on a combined basis and of each component of AIGFP's and AIGTG's market risk as of March 31, 2001 and December 31, 2000.

(dollars in millions)

	2001			2000		
	AVERAGE	HIGH	LOW	AVERAGE	HIGH	LOW
AIGFP MARKET RISK:						
Combined	\$13	\$15	\$10	\$15	\$24	\$8
Interest rate	13	15	10	15	23	7
Currency	--	1	--	--	--	--
Equity/Commodity	1	1	--	1	2	--
AIGTG MARKET RISK:						
Combined	\$ 4	\$ 6	\$3	\$ 5	\$ 6	\$4
Interest Rate	4	4	3	3	4	3
Currency	2	3	1	3	4	2

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 swaps, currency swaps, equity swaps and swaptions. Such derivatives are traded over the counter. 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. Currency and equity swaps are similar to interest rate swaps but may involve the exchange of principal amounts at the commencement and termination of the swap. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

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. Options may be traded over the counter or on an exchange.

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 op-

tions. Over the counter derivatives are generally not traded like exchange traded securities and the terms of over the counter derivatives are non-standard and unique to each contract. 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. Management believes that such agreements provide for legally enforceable set-off in the event of default. Also, under such agreements, in connection with a counterparty desiring to terminate a contract prior to maturity, AIGFP may be permitted to set-off its receivables from that counterparty against AIGFP's payables to that same counterparty arising out of all included transactions. Excluding regulated exchange transactions, AIGTG, whenever possible, enters into netting agreements with its counterparties which are similar in effect to those discussed above.

The following tables provide the notional and contractual amounts of AIGFP's and AIGTG's derivatives transactions at March 31, 2001 and December 31, 2000.

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, netting under ISDA Master Agreements and applying collateral held. Prior to the application of these credit enhancements, the gross credit risk with respect to these derivative instruments was \$47.9 billion at March 31, 2001 and \$33.4 billion at December 31, 2000. Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all interest rate, currency and equity swaps, swaptions and forward commitments approximated \$10.98 billion at March 31, 2001 and \$9.51 billion at December 31, 2000. The net replacement value for futures and forward contracts approximated \$307 million at March 31, 2001

and \$204 million at December 31, 2000. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at March 31, 2001 and December 31, 2000:

(in millions)

	REMAINING LIFE				TOTAL 2001	TOTAL 2000
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS		
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	\$ 78,762	\$186,071	\$ 87,608	\$ 8,863	\$361,304	\$344,203
Currency swaps	41,396	43,098	33,317	5,161	122,972	117,792
Swaptions and equity swaps	15,728	30,340	11,127	4,806	62,001	59,026
Total	\$135,886	\$259,509	\$132,052	\$18,830	\$546,277	521,021
Futures and forward contracts:						
Exchange traded futures contracts contractual amount						
	\$ 8,437	--	--	--	\$ 8,437	\$ 11,082
Over the counter forward contracts contractual amount						
	\$ 36,220	\$ 451	\$ 39	--	\$ 36,710	\$ 22,809

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At March 31, 2001 and December 31, 2000, 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 2001	TOTAL 2000
Counterparty credit quality:				
AAA	\$ 4,406	\$ 8	\$ 4,414	\$3,778
AA	3,131	271	3,402	2,825
A	2,238	25	2,263	1,801
BBB	943	3	946	1,059
Below investment grade	260	--	260	252
Total	\$10,978	\$307	\$11,285	\$9,715

At March 31, 2001 and December 31, 2000, 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 2001	TOTAL 2000
Non-U.S. banks	\$ 2,518	\$ 87	\$ 2,605	\$2,517
Insured municipalities	650	--	650	595
U.S. industrials	2,176	--	2,176	1,945
Governmental	537	--	537	463
Non-U.S. financial service companies	395	--	395	309
Non-U.S. industrials	1,337	10	1,347	1,372
Special purpose	1,414	--	1,414	1,204
U.S. banks	162	207	369	220
U.S. financial service companies	1,469	3	1,472	894
Supranationals	320	--	320	196
Total	\$10,978	\$307	\$11,285	\$9,715

The gross replacement values presented in the following table represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at March 31, 2001 and December 31, 2000. These values do not represent the credit risk to AIGTG.

The net replacement values presented represent the net sum of estimated positive fair values after the application of legally enforceable master netting agreements and collateral held. The net replacement values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss.

The following table provides the contractual and notional amounts and credit exposure, if applicable, by maturity and type of derivative of AIGTG's derivatives portfolio at March 31, 2001 and December 31, 2000. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the March 31, 2001 balances based upon the expected timing of the future cash flows.

(in millions)

	REMAINING LIFE				TOTAL 2001	TOTAL 2000
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS		
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	\$ 13,306	\$ 3,745	\$ 22	\$ --	\$ 17,073	\$ 18,064
Forwards	\$253,074	\$16,414	\$ 1,903	\$ --	\$271,391	\$234,316
Over the counter purchased options	\$ 85,499	\$20,075	\$28,182	\$ --	\$133,756	\$104,919
Over the counter sold options(a)	\$ 85,254	\$19,541	\$27,047	\$ --	\$131,842	\$103,742
Notional amount:						
Interest rate swaps and forward rate agreements	\$ 18,130	\$36,195	\$ 7,362	\$87	\$ 61,774	\$ 63,264
Currency swaps	2,198	6,778	687	--	9,663	8,573
Swaptions	1,399	13,221	1,357	--	15,977	15,419
Total	\$ 21,727	\$56,194	\$ 9,406	\$87	\$ 87,414	\$ 87,256
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	\$ 8,294	\$ 3,018	\$ 1,034	\$ 1	\$ 12,347	\$ 10,319
Master netting arrangements	(5,244)	(1,861)	(749)	(1)	(7,855)	(6,136)
Collateral	(79)	(54)	(25)	--	(158)	(107)
Net replacement value(b)	\$ 2,971	\$ 1,103	\$ 260	\$ --	\$ 4,334	\$ 4,076

(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 March 31, 2001 and December 31, 2000, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio were as follows:

(in millions)

	NET REPLACEMENT VALUE	
	2001	2000
Counterparty credit quality:		
AAA	\$ 465	\$ 442
AA	1,947	1,807
A	1,329	1,139
BBB	350	460
Below investment grade	93	48
Not externally rated, including exchange traded futures and options*	150	180
Total	\$4,334	\$4,076
Counterparty breakdown by industry:		
Non-U.S. banks	\$1,723	\$2,076
U.S. industrials	319	67
Governmental	97	70
Non-U.S. financial service companies	440	282
Non-U.S. industrials	465	243
U.S. banks	731	468
U.S. financial service companies	409	690
Exchanges*	150	180
Total	\$4,334	\$4,076

* 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.

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.

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 accounts.

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

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

On the date the derivative contract is entered into, AIG designates the derivative as: (1) a hedge of the subsequent changes in the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge); (2) a hedge of a forecasted transaction, or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge); or (3) a hedge of a net investment in a foreign operation. Fair value and cash flow hedges may involve foreign currencies ("foreign currency hedges"). The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a fair value hedge is recorded in current period earnings, along with the loss or gain on the hedged item attributable to the hedged risk. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a cash flow hedge is recorded in other comprehensive income, until earnings are affected by the variability of cash flows. The gain or loss in the fair value of a derivative that is designated, qualifies and is highly effective as a hedge of a net investment in a foreign operation is recorded in the foreign currency translation adjustments account within other comprehensive income. Changes in the fair value of derivatives used for other than the above hedging activities are reported in current period earnings.

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

AIG adopted FASB 133 on January 1, 2001. In accordance with the transition provisions of FASB 133, AIG recorded in its first quarter 2001 consolidated income statement a cumulative effect of an accounting change adjustment loss of \$6 million. This loss represents the net fair value of all previously unrecorded derivative instruments as of January 1, 2001, net of tax and after the application of hedge accounting. AIG also recorded in its first quarter of 2001 consolidated statement of comprehensive income a cumulative effect of an accounting change adjustment gain of \$179 million. This gain represents the increase in other comprehensive income, net of taxes, arising from recognizing the fair value of all derivative contracts designated as cash flow hedging instruments, and to a lesser extent, hedging instruments used to hedge net investments in foreign operations.

RECENT DEVELOPMENTS

On November 22, 2000, AIG completed its acquisition of HSB Group, Inc., which through its subsidiaries, including The Hartford Steam Boiler Inspection and Insurance Company (HSB), provides equipment breakdown and other specialty insurance coverages. Each of the outstanding shares of HSB common stock was exchanged for 0.4178 of a share of AIG common stock resulting in the issuance of 12.2 million shares of AIG common stock. The acquisition has been accounted for as a purchase and HSB's results of operations have been consolidated with those of AIG since the date of acquisition.

On April 20, 2001, AIG announced that the reorganization plan for The Chiyoda Mutual Life Insurance Company (Chiyoda) had been approved by Japanese regulatory authorities, and that Chiyoda had become a joint-stock company and

commenced operations as AIG Star Life Insurance Co., Ltd., a wholly owned subsidiary of AIG.

On May 11, 2001, AIG announced that it has entered into a definitive agreement to acquire American General Corporation (American General). American General shareholders will receive \$46 per American General share in AIG common stock, subject to a collar mechanism. The transaction, which has been approved by the boards of directors of both companies, will be a tax-free reorganization and will be treated as a pooling of interests for accounting purposes. The transaction values American General at approximately \$23 billion.

PART II -- OTHER INFORMATION

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

(a) Exhibits

See accompanying Exhibit Index.

(b) There have been no reports on Form 8-K filed during the quarter ended March 31, 2001.

On April 4, 2001, AIG filed a Current Report on Form 8-K (the "April Form 8-K") which included a copy of the April 3, 2001 press release announcing that it had offered to acquire American General Corporation. Also included in the April Form 8-K was a slide prepared for use by AIG executives in connection with the conference call announced in the press release.

On May 11, 2001, AIG filed a Current Report on Form 8-K which included a copy of the May 11, 2001 press release announcing the definitive agreement to acquire American General Corporation.

SIGNATURES

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

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/s/ HOWARD I. SMITH

Howard I. Smith
Executive Vice President and
Chief Financial Officer

Dated: May 14, 2001

EXHIBIT INDEX

EXHIBIT NUMBER -----	DESCRIPTION -----	LOCATION -----
2	Plan of acquisition, reorganization, arrangement, liquidation or succession.....	None
4	Instruments defining the rights of security holders, including indentures.....	Not required to be filed.
10	Material contracts.....	None
11	Statement re computation of per share earnings.....	Filed herewith.
12	Statement re computation of ratios.....	Filed herewith.
15	Letter re unaudited interim financial information.....	None
18	Letter re change in accounting principles.....	None
19	Report furnished to security holders.....	None
22	Published report regarding matters submitted to vote of security holders.....	None
23	Consents of experts and counsel.....	None
24	Power of attorney.....	None
99	Additional exhibits.....	None

AMERICAN INTERNATIONAL GROUP, INC.

COMPUTATION OF EARNINGS PER SHARE
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31,	
	2001(a)	2000
Share information reflects an adjustment on a pro forma basis for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000.		
Numerator:		
Income before cumulative effect of an accounting change.....	\$1,538	\$1,346
Cumulative effect of an accounting change, net of tax.....	(6)	--
Net income (applicable to common stock).....	\$1,532	\$1,346
Denominator:		
Basic:		
Average outstanding shares used in the computation of per share earnings:		
Common stock.....	2,477	2,491
Common stock in treasury.....	(143)	(171)
Average outstanding shares -- basic.....	2,334	2,320
Diluted:		
Average outstanding shares used in the computation of per share earnings:		
Common stock.....	2,477	2,491
Common stock in treasury.....	(143)	(171)
Stock options and stock purchase plan (treasury stock method).....	25	26
Average outstanding shares -- diluted.....	2,359	2,346
Net income per share:		
Basic		
Income before cumulative effect of an accounting change.....	\$ 0.66	\$ 0.58
Net income.....	\$ 0.66	\$ 0.58
Diluted		
Income before cumulative effect of an accounting change.....	\$ 0.65	\$ 0.57
Net income.....	\$ 0.65	\$ 0.57

(a) The number of common shares outstanding as of March 31, 2001 was 2,331. The number of common shares that would have been outstanding as of March 31, 2001 assuming the exercise or issuance of all potentially dilutive common shares 2,356.

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
Income before income taxes, minority interest and cumulative effect of an accounting change.....	\$2,272	\$1,991
Less -- Equity income (loss) of less than 50% owned persons.....	5	(3)
	2,267	1,994
Add --		
Fixed charges.....	815	671
Less --		
Capitalized interest.....	16	14
Income before income taxes, minority interest, cumulative effect of an accounting change and fixed charges.....	\$3,066	\$2,651
Fixed charges:		
Interest costs.....	\$ 784	\$ 640
Rent expense*.....	31	31
Total fixed charges.....	\$ 815	\$ 671
Ratio of earnings to fixed charges.....	3.76	3.95

* The proportion deemed representative of the interest factor.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 6.82 and 6.87 for 2001 and 2000, 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.