

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, 1998 COMMISSION FILE NUMBER 1-8787

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

DELAWARE 13-2592361
(STATE OR OTHER JURISDICTION OF INCORPORATION OR (I.R.S. EMPLOYER IDENTIFICATION NUMBER)
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, 1998: 699,633,609.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

MARCH 31, DECEMBER 31,
1998 1997

(UNAUDITED)

ASSETS:
Investments and cash:
Fixed maturities:

Bonds available for sale, at market value (amortized cost: 1998 -- \$37,458,939; 1997 -- \$36,568,360)...	\$ 38,841,366	\$ 38,077,792
Bonds held to maturity, at amortized cost (market value: 1998 -- \$12,976,893; 1997 -- \$13,365,703).....	12,259,891	12,530,315
Bonds trading securities, at market value (cost: 1998 -- \$736,554; 1997 -- \$699,614).....	754,673	718,548
Preferred stocks, at amortized cost (market value: 1998 -- \$541,271; 1997 -- \$530,705).....	237,185	239,331
Equity securities:		
Common stocks (cost: 1998 -- \$4,539,712; 1997 -- \$4,625,433).....	5,506,883	5,209,274
Non-redeemable preferred stocks (cost: 1998 -- \$160,145; 1997 -- \$138,412).....	168,535	138,745
Mortgage loans on real estate, policy and collateral loans -- net.....	8,050,313	7,919,764
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1998 -- \$1,736,914; 1997 -- \$1,657,313).....	15,060,998	14,438,074
Securities available for sale, at market value (cost: 1998 -- \$7,751,728; 1997 -- \$9,145,244).....	7,758,373	9,145,317
Trading securities, at market value.....	4,805,414	3,974,561
Spot commodities, at market value.....	465,934	459,517
Unrealized gain on interest rate and currency swaps, options and forward transactions.....	7,547,075	7,422,290
Trading assets.....	5,734,246	6,715,486
Securities purchased under agreements to resell, at contract value.....	6,353,295	4,551,191
Other invested assets.....	5,768,594	4,681,423
Short-term investments, at cost (approximates market value).....	3,514,585	3,332,542
Cash.....	145,138	86,917
	-----	-----
Total investments and cash.....	122,972,498	119,641,087
Investment income due and accrued.....	1,437,650	1,368,404
Premiums and insurance balances receivable -- net.....	11,292,908	10,282,987
Reinsurance assets.....	16,206,870	16,110,521
Deferred policy acquisition costs.....	6,698,716	6,592,506
Investments in partially-owned companies.....	1,098,910	1,121,173
Real estate and other fixed assets, net of accumulated depreciation (1998 -- \$1,507,705; 1997 -- \$1,512,617).....	2,329,995	2,342,187
Separate and variable accounts.....	4,457,976	3,993,971
Other assets.....	2,888,330	2,517,851
	-----	-----
Total assets.....	\$169,383,853	\$163,970,687
	=====	=====

See Accompanying Notes to Financial Statements.

1

3

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET -- (CONTINUED)
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MARCH 31, 1998	DECEMBER 31, 1997
	-----	-----
	(UNAUDITED)	
LIABILITIES:		
Reserve for losses and loss expenses.....	\$ 33,645,718	\$ 33,400,160
Reserve for unearned premiums.....	8,972,491	8,739,006
Future policy benefits for life and accident and health insurance contracts.....	25,037,666	24,502,005
Policyholders' contract deposits.....	10,606,447	10,323,112
Other policyholders' funds.....	2,372,319	2,352,514
Reserve for commissions, expenses and taxes.....	1,918,714	1,739,945
Insurance balances payable.....	2,359,527	1,702,578
Funds held by companies under reinsurance treaties.....	350,821	336,585
Income taxes payable:		
Current.....	597,268	585,375

Deferred.....	606,363	470,706
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements.....	7,870,337	8,000,326
Securities sold under agreements to repurchase, at contract value.....	3,752,875	2,706,310
Trading liabilities.....	4,672,803	5,366,421
Securities and spot commodities sold but not yet purchased, at market value.....	6,178,593	5,171,680
Unrealized loss on interest rate and currency swaps, options and forward transactions.....	5,857,810	5,979,571
Deposits due to banks and other depositors.....	957,560	972,423
Commercial paper.....	2,699,271	2,208,167
Notes, bonds and loans payable.....	12,308,405	12,608,891
Commercial paper.....	1,237,179	1,166,740
Notes, bonds, loans and mortgages payable.....	1,188,870	1,276,521
Separate and variable accounts.....	4,457,976	3,993,971
Other liabilities.....	6,368,500	5,966,553
	-----	-----
Total liabilities.....	144,017,513	139,569,560
	-----	-----
Preferred shareholders' equity in subsidiary company.....	400,000	400,000
	-----	-----

CAPITAL FUNDS:

Common stock, \$2.50 par value: 1,000,000,000 shares authorized; shares issued 1998 -- 759,121,536; 1997 -- 759,121,505.....	1,897,804	1,897,804
Additional paid-in capital.....	98,545	105,689
Retained earnings.....	23,755,644	22,920,991
Accumulated other comprehensive income.....	310,917	172,141
Treasury stock, at cost; 1998 -- 59,487,927; 1997 -- 59,603,224 shares of common stock.....	(1,096,570)	(1,095,498)
	-----	-----
Total capital funds.....	24,966,340	24,001,127
	-----	-----
Total liabilities and capital funds.....	\$169,383,853	\$163,970,687
	=====	=====

See Accompanying Notes to Financial Statements.

2

4

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
	-----	-----
General insurance operations:		
Net premiums written.....	\$3,381,363	\$3,313,944
Change in unearned premium reserve.....	(143,149)	(319,965)
	-----	-----
Net premiums earned.....	3,238,214	2,993,979
Net investment income.....	501,243	451,071
Realized capital gains.....	70,278	49,318
	-----	-----
	3,809,735	3,494,368
	-----	-----
Losses and loss expenses incurred.....	2,465,049	2,303,551
Underwriting expenses.....	648,725	571,644
	-----	-----
	3,113,774	2,875,195
	-----	-----
Operating income.....	695,961	619,173
	-----	-----
Life insurance operations:		
Premium income.....	2,377,602	2,301,174

Net investment income.....	751,764	679,342
Realized capital gains (losses).....	(3,486)	8,162
	-----	-----
	3,125,880	2,988,678
	-----	-----
Death and other benefits.....	973,870	895,528
Increase in future policy benefits.....	1,154,830	1,166,584
Acquisition and insurance expenses.....	587,771	572,374
	-----	-----
	2,716,471	2,634,486
	-----	-----
Operating income.....	409,409	354,192
	-----	-----
Financial services operating income.....	187,085	133,359
Equity in income of minority-owned insurance operations.....	25,504	25,720
Other realized capital losses.....	(11,383)	(7,091)
Minority interest.....	(18,331)	(10,658)
Other income (deductions) -- net.....	(29,439)	(18,419)
	-----	-----
Income before income taxes.....	1,258,806	1,096,276
	-----	-----
Income taxes -- Current.....	326,024	276,723
-- Deferred.....	46,250	38,618
	-----	-----
	372,274	315,341
	-----	-----
Net income.....	\$ 886,532	\$ 780,935
	=====	=====
Earnings per common share:		
Basic.....	\$ 1.27	\$ 1.11
	=====	=====
Diluted.....	\$ 1.26	\$ 1.10
	=====	=====
Cash dividends per common share.....	\$ 0.10	\$ 0.066
	=====	=====
Average shares outstanding:		
Basic.....	699,516	704,259
	-----	-----
Diluted.....	702,982	707,211
	-----	-----

See Accompanying Notes to Financial Statements.

3

5

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CAPITAL FUNDS
(IN THOUSANDS)

	MARCH 31,	
	1998	

	(UNAUDITED)	
Common stock:		
Balance at beginning of year.....	\$ 1,897,804	

Balance at end of period.....	1,897,804	

Additional paid-in capital:		
Balance at beginning of year.....	105,689	
Excess of cost over proceeds of common stock issued under stock option and stock purchase plans.....	(9,916)	
Other.....	2,772	

Balance at end of period.....	98,545	

Retained Earnings:		
Balance at beginning of year.....	22,920,991	
Net income.....	886,532	\$ 886,532
Cash dividends to shareholders -- common.....	(51,879)	

Balance at end of period.....	23,755,644	

Accumulated other comprehensive income:		
Balance at beginning of year.....	172,141	
Unrealized appreciation of investments -- net of reclassification adjustments.....	330,103	330,103
Deferred income tax expense on changes.....	(109,111)	(109,111)
Foreign currency translation adjustments.....	(93,561)	(93,561)
Applicable income tax benefit on changes.....	11,345	11,345
	-----	-----
Other comprehensive income.....	138,776	138,776
	-----	-----
Comprehensive income		\$ 1,025,308
		=====
Balance at end of period.....	310,917	

Treasury stock, at cost:		
Balance at beginning of year.....	(1,095,498)	
Cost of shares acquired during period.....	(23,414)	
Issued under stock option and stock purchase plans.....	22,219	
Other.....	123	

Balance at end of period.....	(1,096,570)	

Total Capital Funds.....	\$24,966,340	
	=====	

See Accompanying Notes to Financial Statements.

4

6

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOW
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
	-----	-----
Cash Flows From Operating Activities:		
Net Income.....	\$ 886,532	\$ 780,935
	-----	-----
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.....	1,008,627	1,148,476
Premiums and insurance balances receivable and payable -- net.....	(352,972)	(452,338)
Reinsurance assets.....	(96,349)	(283,670)
Deferred policy acquisition costs.....	(106,210)	(159,777)
Investment income due and accrued.....	(69,246)	2,944
Funds held under reinsurance treaties.....	14,236	(12,429)
Other policyholders' funds.....	19,805	3,685
Current and deferred income taxes -- net.....	58,143	228,842
Reserve for commissions, expenses and taxes.....	178,769	6,226
Other assets and liabilities -- net.....	(138,302)	(1,073)
Trading assets and liabilities -- net.....	287,622	96,855
Trading securities, at market value.....	(830,853)	21,310
Spot commodities, at market value.....	(6,417)	(246,127)
Net unrealized gain on interest rate and currency swaps, options and forward transactions.....	(246,546)	(292,875)
Securities purchased under agreements to resell.....	(1,802,104)	(95,929)
Securities sold under agreements to repurchase.....	1,046,565	(392,695)
Securities and spot commodities sold but not yet purchased, at market value.....	1,006,913	240,583
Realized capital gains.....	(55,409)	(50,389)
Equity in income of partially-owned companies and other invested assets.....	(76,657)	(34,319)
Depreciation expenses, principally flight equipment.....	212,637	204,018
Change in cumulative translation adjustments.....	(93,561)	(115,016)
Other -- net.....	74,434	(5,293)
	-----	-----

Total adjustments.....	33,125	(188,991)
Net cash provided by operating activities.....	\$ 919,657	\$ 591,944

See Accompanying Notes to Financial Statements.

5

7

AMERICAN INTERNATIONAL GROUP, INC

CONSOLIDATED STATEMENT OF CASH FLOW -- (CONTINUED)
(DOLLARS IN THOUSANDS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed.....	\$ 329,357	\$ 428,108
Cost of bonds, at market sold.....	3,043,867	2,479,723
Cost of bonds, at market matured or redeemed.....	1,073,853	707,346
Cost of equity securities sold.....	690,974	638,538
Realized capital gains.....	55,409	50,389
Purchases of fixed maturities.....	(5,082,757)	(4,332,108)
Purchases of equity securities.....	(655,081)	(737,605)
Mortgage, policy and collateral loans granted.....	(411,013)	(467,118)
Repayments of mortgage, policy and collateral loans.....	280,464	568,642
Sales of securities available for sale.....	1,668,712	1,047,866
Maturities of securities available for sale.....	1,355,985	1,705,535
Purchases of securities available for sale.....	(1,639,772)	(2,363,269)
Sales of flight equipment.....	277,810	35,913
Purchases of flight equipment.....	(1,037,175)	(1,229,084)
Net additions to real estate and other fixed assets.....	(64,004)	(25,029)
Sales or distributions of other invested assets.....	276,769	2,071,444
Investments in other invested assets.....	(1,084,668)	(2,276,363)
Change in short-term investments.....	(182,043)	237,625
Investments in partially-owned companies.....	(7,392)	(10,695)
Net cash used in investing activities.....	(1,110,705)	(1,470,142)
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits.....	283,335	23,315
Change in deposits due to banks and other depositors.....	(14,863)	(40,019)
Change in commercial paper.....	561,543	543,137
Proceeds from notes, bonds, loans and mortgages payable...	1,223,568	2,115,484
Repayments on notes, bonds, loans and mortgages payable...	(1,614,230)	(1,775,215)
Proceeds from guaranteed investment agreements.....	615,150	587,719
Maturities of guaranteed investment agreements.....	(745,139)	(508,448)
Proceeds from common stock issued.....	12,303	11,011
Cash dividends to shareholders.....	(51,879)	(46,954)
Acquisition of treasury stock.....	(23,414)	(14,596)
Other - net.....	2,895	1,282
Net cash provided by financing activities.....	249,269	896,716
Change in cash.....	58,221	18,518
Cash at beginning of period.....	86,917	58,740
Cash at end of period.....	\$ 145,138	\$ 77,258

See Accompanying Notes to Financial Statements.

6

8

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1998

- 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.
- b) Earnings per share of American International Group, Inc. (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 in 1997 reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997. The quarterly dividend rate per common share, commencing with the dividend paid September 19, 1997 is \$0.075.

- c) Supplemental cash flow information for the three month periods ended March 31, 1998 and 1997 is as follows:

	1998	1997
	-----	-----
	(IN THOUSANDS)	
Income taxes paid.....	\$305,500	\$ 81,900
Interest paid.....	\$349,800	\$314,600

- d) Statement of Accounting Standards No. 130 "Comprehensive Income" (FASB 130) was adopted by AIG effective January 1, 1998. FASB 130 establishes standards for reporting comprehensive income and its components as part of the statement of changes in capital funds. Such statement is presented herein.

The reclassification adjustment with respect to available for sale securities was \$55.4 million.

- e) Derivatives Accounting Policy: AIG Financial Products Corp. and its subsidiaries and AIG Trading Group Inc. and its subsidiaries enter into future, forward, swap and option derivative transactions. These transactions are marked to market. With the exception of the derivatives used in market hedging activities with respect to securities available for sale, at market, the marks to market on all such other derivative transactions are recognized in income currently. The mark to market with respect to derivatives which hedge the market movements of securities available for sale, at market is recognized as a component of unrealized appreciation of investments, net of taxes. When the underlying security is sold, the loss or gain resulting from the hedging derivative transaction is recognized as income in that same period.
- f) For further information, refer to the Annual Report on Form 10-K of AIG for the year ended December 31, 1997.

7

9

AMERICAN INTERNATIONAL GROUP, INC.

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

OPERATIONAL REVIEW

General Insurance Operations

General insurance operations for the three month periods ending March 31, 1998, and 1997 were as follows:

(in thousands)

1998

1997

Net premiums written:		
Domestic	\$ 2,266,806	\$2,254,153
Foreign	1,114,557	1,059,791

Total	\$ 3,381,363	\$3,313,944

Net premiums earned:		
Domestic	\$ 2,165,745	\$2,008,157
Foreign	1,072,469	985,822

Total	\$ 3,238,214	\$2,993,979

Adjusted underwriting profit:		
Domestic	\$ 8,898	\$ 10,973
Foreign	115,542	107,811

Total	\$ 124,440	\$ 118,784

Net investment income:		
Domestic	\$ 407,465	\$ 367,561
Foreign	93,778	83,510

Total	\$ 501,243	\$ 451,071

Operating income before realized capital gains:		
Domestic	\$ 416,363	\$ 378,534
Foreign	209,320	191,321

Total	625,683	569,855
Realized capital gains	70,278	49,318

Operating income	\$ 695,961	\$ 619,173

During the first three months of 1998, the net premiums written and net premiums earned in AIG's general insurance operations increased 2.0 percent and 8.2 percent, respectively, from those of 1997.

Although the commercial insurance market remains highly competitive and excessively capitalized, AIG has been able to sustain growth in various specialty markets. Foreign general insurance operations produced 33.0 percent of the general insurance net premiums written in the first three months of 1998 and 32.0 percent in the same period of 1997.

In comparing the foreign currency exchange rates used to translate the results of AIG's foreign general operations during the first three months of 1998 to those foreign currency exchange rates used to translate AIG's foreign general results during the same period of 1997, 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 2.6 percentage points less than they would have been if translated utilizing those foreign currency exchange rates which prevailed during that same period of 1997.

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

The statutory general insurance ratios were as follows:

1998	1997
------	------

Domestic:		
Loss Ratio	84.78	86.06
Expense Ratio	14.74	13.91

Combined Ratio	99.52	99.97

Foreign:		
Loss Ratio	58.64	58.36
Expense Ratio	30.54	30.80

Combined Ratio	89.18	89.16

Consolidated:		
Loss Ratio	76.12	76.94
Expense Ratio	19.95	19.31

Combined Ratio	96.07	96.25

Adjusted underwriting profit (operating income less net investment income and realized capital gains) represents statutory underwriting profit adjusted primarily for changes in deferred acquisition costs. The adjusted underwriting profits were \$124.4 million in the first three months of 1998 and \$118.8 million in the same period of 1997.

AIG did not incur any catastrophe losses in the first three months of 1998. AIG incurred net losses from catastrophes approximating \$16 million in

8

10

1997. AIG's gross incurred losses from catastrophes approximated \$22 million in 1997.

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

General insurance net investment income in the first three months of 1998 increased 11.1 percent when compared to the same period of 1997. The growth in net investment income in 1998 was attributable to new cash flow for investment and the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

General insurance realized capital gains were \$70.3 million in the first three months of 1998 and \$49.3 million in 1997. These realized gains resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first three months of 1998 increased 12.4 percent when compared to the same period of 1997. The contribution of general insurance operating income to income before income taxes was 55.3 percent in 1998 compared to 56.5 percent in 1997.

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

AIG's general reinsurance assets amounted to \$16.08 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at March 31, 1998 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound and, when

necessary, AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 1997, approximately 50 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 50 percent of the general reinsurance assets were from authorized reinsurers and over 94 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, 1998, these distribution percentages have not significantly changed.

AIG's provision for estimated unrecoverable reinsurance has not changed significantly from December 31, 1997 when AIG had allowances for unrecoverable reinsurance approximating \$120 million. At that date, and prior to this allowance, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

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

9

11

At March 31, 1998, the consolidated general reinsurance assets of \$16.08 billion include reinsurance recoverables for paid losses and loss expenses of \$1.97 billion and \$12.32 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, 1998 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

At March 31, 1998, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$33.65 billion, an increase of \$245.6 million or 0.7 percent from the prior year end, and represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and minor amounts of discounting related to certain workers' compensation claims. General insurance net loss reserves increased \$155.7 million or 0.7 percent to \$21.33 billion and represent loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at March 31, 1998. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on such future results of operations.

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

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

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

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

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

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

mental 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 pollution impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein.

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

In the interim, AIG and other industry members have and will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the

future development of asbestos and environmental claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at March 31, 1998 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at March 31, 1998 and 1997 was as follows:

(in millions)

	1998		1997	
	GROSS	Net	Gross	Net
Asbestos:				
Reserve for losses and loss expenses at beginning of year	\$ 842.1	\$195.1	\$ 875.9	\$172.3
Losses and loss expenses incurred	79.7	6.1	112.2	16.2
Losses and loss expenses paid	(73.6)	(8.2)	(142.5)	(15.4)
Reserve for losses and loss expenses at end of period	\$ 848.2	\$193.0	\$ 845.6	\$173.1
Environmental:				
Reserve for losses and loss expenses at beginning of year	\$1,467.1	\$592.2	\$1,427.4	\$570.6
Losses and loss expenses incurred	89.1	41.4	38.4	12.0
Losses and loss expenses paid	(68.7)	(23.9)	(28.5)	(10.2)
Reserve for losses and loss expenses at end of period	\$1,487.5	\$609.7	\$1,437.3	\$572.4
Combined:				
Reserve for losses and loss expenses at beginning of year	\$2,309.2	\$787.3	\$2,303.3	\$742.9
Losses and loss expenses incurred	168.8	47.5	150.6	28.2
Losses and loss expenses paid	(142.3)	(32.1)	(171.0)	(25.6)
Reserve for losses and loss expenses at end of period	\$2,335.7	\$802.7	\$2,282.9	\$745.5

13

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

(in thousands)

	1998		1997	
	GROSS	Net	Gross	Net
Combined	\$1,019,000	\$399,920	\$1,004,000	\$393,900

A summary of asbestos and environmental claims count activity for the three month periods ended March 31, 1998 and 1997 was as follows:

	1998			1997		
	ASBESTOS	ENVIRONMENTAL	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	6,150	17,422	23,572	5,668	17,395	23,063
Claims during period:						
Opened	249	880	1,129	331	961	1,292
Settled	(18)	(154)	(172)	(46)	(113)	(159)
Dismissed or otherwise resolved	(179)	(1,316)	(1,495)	(180)	(494)	(674)
Claims at end of period	6,202	16,832	23,034	5,773	17,749	23,522

The average cost per claim settled, dismissed or otherwise resolved for the three month periods ended March 31, 1998 and 1997 was as follows:

	1998		1997	
	GROSS	Net	Gross	Net
Asbestos	\$373,600	\$41,600	\$630,500	\$68,100
Environmental	46,700	16,300	47,000	16,800
Combined	85,400	19,300	205,300	30,700

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

The developed survival ratios include both involuntary and voluntary

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

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

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

	1998		1997	
	GROSS	Net	Gross	Net
Involuntary survival ratios:				
Asbestos	2.2	3.8	2.5	3.5
Environmental	15.8	16.4	17.3	17.9
Combined	5.3	9.7	5.9	9.8

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 1997 was \$15.4 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 1998.

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

Life insurance operations for the three month periods ending March 31, 1998 and 1997 were as follows:

(in thousands)

	1998	1997
Premium income:		
Domestic	\$ 187,497	\$ 117,351
Foreign	2,190,105	2,183,823
Total	\$ 2,377,602	\$ 2,301,174

Net investment income:		
Domestic	\$ 221,632	\$ 206,031
Foreign	530,132	473,311

Total	\$ 751,764	\$ 679,342

Operating income before realized capital gains (losses):		
Domestic	\$ 36,002	\$ 30,292
Foreign	376,893	315,738

Total	412,895	346,030
Realized capital gains (losses)		
	(3,486)	8,162

Operating income	\$ 409,409	\$ 354,192

Life insurance in-force:*		
Domestic	\$ 61,262,723	\$ 59,516,720
Foreign	385,619,478	377,056,403

Total	\$446,882,201	\$436,573,123

* Amounts presented were as at March 31, 1998 and December 31, 1997, respectively.

AIG's life insurance operations, demonstrating the strength of its franchise, continued to show growth primarily as a result of overseas operations, particularly in Asia. AIG's life premium income during the first three months of 1998 represented a 3.3 percent increase from the same period in 1997. Foreign life operations produced 92.1 percent and 94.9 percent of the life premium income in 1998 and 1997, respectively.

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 1998, 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 16.9 percentage points less than it would have been if translated utilizing exchange rates prevailing in 1997.

Life insurance net investment income increased 10.7 percent during the first three months of 1998. The growth in net investment income was primarily attributable to foreign new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

The traditional life products, such as whole and term life and endowments, were the major contributors to the growth in foreign premium income and investment income, particularly in Asia, and continue to be the primary source of growth in the life segment. A mixture of traditional, accident and health and financial products are being sold in Japan.

Life insurance realized capital losses were \$3.5 million in 1998 compared to realized capital gains of \$8.2 million in 1997. These realized capital gains and losses resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income during the first three months of 1998 increased 15.6 percent to \$409.4 million. Excluding realized capital gains and losses from life insurance operating income, the increase would be 19.3 percent. The contribution of

life insurance operating income to income before income taxes amounted to 32.5 percent during the first three months of 1998 compared to 32.3 percent in the

same period of 1997.

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

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

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 such policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the investments may be at a yield below that of the interest required for the accretion of the policy liabilities. At December 31, 1997, the average duration of the investment portfolio in Japan was 5.7 years, while the related policy liabilities were estimated to be 13.7 years. These durations have not changed significantly during 1998. To maintain an adequate yield to match the interest required over the duration of the liabilities, constant management focus is required to reinvest the proceeds of the maturing securities without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. Domestically, active monitoring assures appropriate asset-liability matching as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

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

Financial Services Operations

Financial services operations for the three month periods ending March 31, 1998 and 1997 were as follows:

(in thousands)

	1998	1997
Revenues:		
International Lease Finance Corp.	\$461,360	\$415,588
AIG Financial Products Corp.*	115,851	81,176
AIG Trading Group Inc.*	76,640	78,352

Other	85,108	112,207

Total	\$738,959	\$687,323

Operating income:		
International Lease Finance Corp.	\$103,528	\$ 84,427
AIG Financial Products Corp.	67,733	42,211
AIG Trading Group Inc.	22,024	14,261
Other, including intercompany adjustments	(6,200)	(7,540)

Total	\$187,085	\$133,359

*Represents net trading revenues.

Financial services operating income increased 40.3 percent in the first three months of 1998 over 1997.

14

16

Financial services operating income represented 14.9 percent of AIG's income before income taxes in the first three months of 1998. This compares to 12.2 percent in the same period of 1997.

International Lease Finance Corporation (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 1998 increased 11.0 percent from 1997. The revenue growth resulted primarily from the growth both in the size and relative cost of the fleet and the increase in the number of aircraft sold. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During the first three months of 1998, operating income increased 22.6 percent from 1997. The composite borrowing rates during the first three months of 1998 and 1997 were 6.29 percent and 6.20 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

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, 1998, there were 304 aircraft subject to operating leases. At March 31, 1998, three aircraft were not leased and of these, one aircraft has been committed for sale. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIG Financial Products Corp. and its subsidiaries (AIGFP) participate in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in the first three months of 1998 increased 42.7 percent from the same period of 1997. During the first three months of 1998, operating income increased 60.5 percent from the same period of 1997. 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.)

AIG Trading Group Inc. and its subsidiaries (AIGTG) derive a substantial portion of their revenues from market making and trading activities, as principals, in foreign exchange, interest rates and precious and base metals. Revenues in the first three months of 1998 decreased 2.2 percent from the same period of 1997. During the first three months of 1998, operating income increased 54.4 percent from the same period of 1997. As AIGTG 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.)

OTHER OPERATIONS

In the first three months of 1998, AIG's equity in income of minority-owned insurance operations was \$25.5 million compared to \$25.7 million in the same period of 1997. In the first three months of 1998, the equity interest in insurance companies represented 2.0 percent of income before income taxes compared to 2.3 percent in the same period of 1997.

Other realized capital losses amounted to \$11.4 million and \$7.1 million in 1998 and 1997, respectively.

Minority interest represents minority shareholders' equity in income of certain consolidated subsidiaries. In the first three months of 1998, minority interest amounted to \$18.3 million. In the first three months of 1997, minority interest amounted to \$10.7 million.

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 1998, net deductions amounted to \$29.4 million. In the same period of 1997, net deductions amounted to \$18.4 million.

15

17

Income before income taxes amounted to \$1.26 billion in the first three months of 1998, and \$1.10 billion in the same period of 1997.

In the first three months of 1998, AIG recorded a provision for income taxes of \$372.3 million compared to the provision of \$315.3 million in the same period of 1997. These provisions represent effective tax rates of 29.6 percent in the first three months of 1998, and 28.8 percent in the same period of 1997.

Net income amounted to \$886.5 million in the first three months of 1998, and \$780.9 million in the same period of 1997. The increases in net income over the periods resulted from those factors described above.

CAPITAL RESOURCES

At March 31, 1998, AIG had total capital funds of \$24.97 billion and total borrowings of \$25.30 billion. At that date, \$22.69 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, 1998 and December 31, 1997 were as follows:
(in thousands)

	1998	1997
GIAs -- AIGFP	\$ 7,870,337	\$ 8,000,326
Commercial Paper:		
Funding	315,547	307,997
ILFC(a)	2,699,271	2,208,167
AICCO	888,583	833,647
Universal Finance Company (UFC) (a)	33,049	25,096
Total	3,936,450	3,374,907
Medium Term Notes:		
ILFC(a)	2,983,365	2,896,865
AIG	219,725	248,225

Total	3,203,090	3,145,090

Notes and Bonds Payable:		
ILFC(a)	3,900,000	3,950,000
AIGFP	4,537,996	4,858,706
AIG: Lire bonds	159,067	159,067
Zero coupon notes	93,704	91,179

Total	8,690,767	9,058,952

Loans and Mortgages Payable:		
ILFC(a) (b)	887,044	903,320
SPC Credit Limited (SPC) (a)	493,999	538,988
AIG	222,375	239,062

Total	1,603,418	1,681,370

Total Borrowings	25,304,062	25,260,645

	1998	1997

Borrowings not guaranteed by		
AIG	10,996,728	10,522,436
Matched GIA borrowings	7,870,337	8,000,326
Matched notes and bonds payable -- AIGFP	3,820,094	3,754,420

	22,687,159	22,277,182

Remaining borrowings of AIG	\$ 2,616,903	\$ 2,983,463

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

During the first three months of 1998, AIGFP decreased the aggregate principal amount outstanding of its notes and bonds payable to \$4.54 billion, a net decrease of \$320.7 million and decreased its net GIA borrowings by \$130.0 million. AIGFP uses the proceeds from the issuance of notes and bonds to invest in a segregated portfolio of securities available for sale, although these funds may be temporarily invested in securities purchased under agreements to resell. Funds received from GIA borrowings are invested in a diversified portfolio of securities and derivative transactions. (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, A.I. Credit Corp. (AICCO) and UFC, a consumer finance subsidiary in Taiwan, issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's, ILFC's or UFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. From time to time, AIGFP may issue commercial paper, which AIG guarantees, to fund its operations. At March 31, 1998, AIGFP had no commercial paper outstanding. (See also the discussion under "Derivatives" herein.)

AIG and Funding have entered into two syndicated revolving credit facilities (the Facilities) aggregating \$1 billion. The Facilities consist of a \$500 million 364 day revolving credit facility and a \$500 million five year revolving credit facility. The Facilities can be used for general corporate purposes and also provide backup for AIG's commercial paper

31, 1998.

At March 31, 1998, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to \$6.88 billion, a net increase of \$36.5 million, and recorded a net decline in its capital lease obligations of \$16.3 million and a net increase in its commercial paper of \$491.1 million. At March 31, 1998, ILFC had \$2.02 billion in aggregate principal amount of debt securities registered for issuance from time to time. 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 1998, AIG issued \$11.5 million principal amount of Medium Term Notes and \$40.0 million of previously issued notes matured. At March 31, 1998 AIG had \$527.3 million in aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds increased \$965.2 million during the first three months of 1998. Unrealized appreciation of investments, net of taxes increased \$221.0 million. During the first three months of 1998, the cumulative translation adjustment loss, net of taxes, increased \$82.2 million. The changes from period to period with respect to the unrealized appreciation of investments, net of taxes and the cumulative translation adjustment loss, net of taxes were primarily impacted by the economic situation in Japan and Southeast Asia and the general strength of the U.S. dollar against most currencies in which AIG conducts operations. (See also the discussion under "Operational Review" and "Liquidity" herein.) Retained earnings increased \$834.7 million, resulting from net income less dividends.

During the period from January 1, 1998 through April 30, 1998, AIG repurchased 200,000 shares of its common stock in the open market at a cost of \$21.2 million. AIG intends to continue to buy its common shares in the open market to satisfy its obligations under various employee benefit plans and, depending on market conditions, for other corporate purposes.

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, 1998, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list." (See also the discussion under "Liquidity" herein.)

The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At December 31, 1997, 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. There has been no significant change through March 31, 1998.

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

LIQUIDITY

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

At March 31, 1998, AIG's consolidated invested assets included approximately \$3.66 billion

of cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 1998 amounted to approximately \$919.7 million.

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 over \$1.5 billion in pre-tax cash flow during the first three months of 1998. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately \$1.3 billion in investment income cash flow during the first three months of 1998. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains.

The combined insurance pre-tax operating cash flow coupled with the cash and short-term investments of \$3.3 billion provided the insurance operations with a significant amount of liquidity during the first three months of 1998. This liquidity is available 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 liquidity coupled with proceeds of over \$5 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase nearly \$6 billion of fixed income securities and marketable equity securities during the first three months of 1998.

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

(dollars in thousands)

	March 31, 1998		December 31, 1997	
	INVESTED ASSETS	Percent of Total	Invested Assets	Percent of Total
General insurance	\$ 33,334,631	26.5%	\$ 31,844,084	26.0%
Life insurance	41,882,509	33.3	41,046,969	33.5
Financial services	49,929,551	39.7	48,899,127	39.9
Other	669,325	0.5	661,701	0.6
Total	\$125,816,016	100.0%	\$122,451,881	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, 1998 and December 31, 1997:

(dollars in thousands)

MARCH 31, 1998	GENERAL	LIFE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION	
					DOMESTIC	FOREIGN
Fixed Maturities:						
Available for sale, at market value(a)	\$11,427,925	\$28,036,373	\$39,464,298	52.5%	39.0%	61.0%
Held to maturity, at amortized cost(b)	12,497,076	--	12,497,076	16.6	100.0	--
Equity securities, at market value(c)	3,483,206	1,973,027	5,456,233	7.3	43.6	56.4
Mortgage loans on real estate, policy and collateral loans	51,114	6,266,461	6,317,575	8.4	38.2	61.8
Short-term investments, including time deposits, and cash	1,174,812	2,090,855	3,265,667	4.3	29.8	70.2
Real estate	397,911	953,582	1,351,493	1.8	17.0	83.0
Investment income due and accrued	526,309	884,184	1,410,493	1.9	40.6	59.4
Other invested assets	3,776,278	1,678,027	5,454,305	7.2	80.0	20.0
Total	\$33,334,631	\$41,882,509	\$75,217,140	100.0%	51.6%	48.4%

(a) Includes \$754,673 of bonds trading securities, at market value.

(b) Includes \$237,185 of preferred stock, at amortized cost.

(c) Includes \$141,399 of preferred stock, at market value.

(dollars in thousands)

December 31, 1997	General	Life	Total	Percent of Total	Percent Distribution	
					Domestic	Foreign
Fixed Maturities:						
Available for sale, at market value(a)	\$11,326,246	\$27,340,210	\$38,666,456	53.0%	37.8%	62.2%
Held to maturity, at amortized cost(b)	12,769,646	--	12,769,646	17.5	100.0	--
Equity securities, at market value(c)	3,314,603	1,815,849	5,130,452	7.0	43.5	56.5
Mortgage loans on real estate, policy and collateral loans	50,297	6,147,606	6,197,903	8.5	39.0	61.0
Short-term investments, including time deposits, and cash	616,683	2,409,353	3,026,036	4.2	33.1	66.9
Real estate	401,995	979,543	1,381,538	1.9	16.8	83.2
Investment income due and accrued	528,164	817,348	1,345,512	1.9	39.7	60.3
Other invested assets	2,836,450	1,537,060	4,373,510	6.0	76.7	23.3
Total	\$31,844,084	\$41,046,969	\$72,891,053	100.0%	51.0%	49.0%

(a) Includes \$718,548 of bonds trading securities, at market value.

(b) Includes \$239,331 of preferred stock, at amortized cost.

(c) Includes \$111,609 of preferred stock, at market value.

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

With respect to fixed maturities, AIG's general strategy is to invest in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentra-

tions. With respect to general insurance, AIG's strategy is to invest in longer duration fixed maturities to maximize the yields at the date of purchase. With respect to life insurance, AIG's strategy is to produce cash flows required to meet maturing insurance liabilities (See also the discussion under "Operational Review: Life Insurance Operations" herein.)

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

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

At March 31, 1998, approximately 53.7 percent of the fixed maturities investments were domestic securities. Approximately 41 percent of such domestic securities were rated AAA. Approximately nine 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, 1998, approximately 27 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 10 percent were below investment grade or not rated at that date.

At March 31, 1998, approximately five percent of the fixed maturities portfolio was Collateralized Mortgage Obligations (CMOs), including minor amounts with respect to Commercial Mortgage Backed Securities. All of the CMOs were investment grade and approximately 55 percent of the CMOs were backed by various U.S. government agencies. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the accelerated prepayments of the underlying mortgages. There were no interest only or principal only CMOs at March 31, 1998.

Any fixed income security may be subject to downgrade for a variety of reasons subsequent to any balance sheet date. There have been no significant downgrades as of May 1, 1998.

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

Mortgage loans on real estate, policy and collateral loans comprised 8.4 percent of AIG's insurance invested assets at March 31, 1998. AIG's insurance operations' holdings of real estate mortgages amounted to \$2.54 billion of which 35.5 percent was domestic. At March 31, 1998, no domestic mortgages and only a nominal amount of foreign mortgages were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At March 31, 1998, AIG's insurance holdings of collateral loans amounted to \$1.06 billion, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans increased from \$2.67 billion at December 31, 1997 to \$2.72 billion at March 31, 1998. Nearly all of this increase relates to corporate-owned life insurance products.

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 December 31, 1997. Through March 31, 1998, the economic facts and circumstances have not significantly changed. Therefore, the VaR at December 31, 1997 was representative of a VaR at March 31, 1998. This calculation used the variance-covariance (delta-normal) methodology. The calculation also used daily historical interest and foreign currency exchange rates and equity prices in the two years ending December 31, 1997. The VaR model estimated the volatility of each of these rates and equity prices and the correlation among them. For interest rates, each country's yield curve was constructed using eleven separate points on this curve to model possible curve movements. Inter-country correlations were also used. The redemption experience of municipal and corporate fixed maturities and mortgage securities was taken into account as well as the use of financial modeling. Thus, the VaR measured the sensitivity of the asset and the liability portfolios to each of the aforementioned market risk exposures. Each sensitivity was estimated separately to capture the market exposures within each insurance segment. These sensitivities were then applied to a data base which contained both historical ranges of movements in all market factors and the correlations among them. The results were aggregated to provide a single amount that depicts the maximum potential loss in fair value at a confidence level of 95 percent for a time period of one month. At December 31, 1997 the VaR of AIG's insurance segments was approximately \$520 million for general insurance and \$799 million for life insurance.

The following table presents the VaR of each component of market risk for each of AIG's insurance segments as of December 31, 1997. 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
Interest rate	\$235.6	\$779.3
Currency	25.9	84.9
Equity	354.5	120.1

FINANCIAL SERVICES INVESTED ASSETS

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

(dollars in thousands)

	1998		1997	
	INVESTED ASSETS	Percent of Total	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	\$15,060,998	30.2%	\$14,438,074	29.5%
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,547,075	15.1	7,422,290	15.2
Securities available for sale, at market value	7,758,373	15.6	9,145,317	18.7
Trading securities, at market value	4,805,414	9.6	3,974,561	8.1
Securities purchased under agreements to resell, at contract value	6,353,295	12.7	4,551,191	9.3
Trading assets	5,734,246	11.5	6,715,486	13.8
Spot commodities, at market value	465,934	0.9	459,517	0.9
Other, including short-term investments	2,204,216	4.4	2,192,691	4.5
Total	\$49,929,551	100.0%	\$48,899,127	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 1998, ILFC acquired flight equipment costing \$1.04 billion.

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.)

Securities available for sale, at market value and securities purchased under agreements to resell are purchased with the proceeds of AIGFP's GIA financings and other long and short term borrowings. The proceeds from the disposal of securities available for sale and securities purchased under agreements to resell have been used to fund the maturing GIAs or other AIGFP financing. (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, 1998, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with \$509.0 million of these securities. There were no securities deemed below investment grade at March 31, 1998. There have been no significant downgrades through May 1, 1998. 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 commod-

ity 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, 1998 were as follows:

(in thousands)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value	\$ 267,030	\$ 260,386
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions(a) (b)	7,547,075	5,857,810
Trading assets	5,813,331	3,799,336
Spot commodities, at market value	41,924	--
Trading liabilities	--	3,164,773
Securities and spot commodities sold but not yet purchased, at market value	209,032	--

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

(b)At March 31, 1998, AIGTG's replacement values with respect to interest rate and currency swaps were \$666.1 million.

AIGFP's interest rate risk on securities available for sale, at market, is 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, 1998, the unrealized gains and losses remaining after the benefit of the offsets were \$11.7 million and \$5.1 million, respectively.

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

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

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

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

separately managed. (See the discussion on the management of credit risk below.)

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

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

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

AIGFP is exposed to market risk due to changes in the level and volatility of equity prices

23

25

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

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

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

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

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

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

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

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

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

24

26

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

AIGFP and AIGTG are both exposed to the risk of loss of fair value. Sensitivity analysis is the statistical technique utilized to measure this exposure. Such analysis is performed and presented separately for AIGFP and AIGTG as AIG manages these operations separately.

AIGFP and AIGTG used the sensitivity analysis model to measure the potential loss in fair value of market risk sensitive instruments of each of their respective portfolios. This potential loss in fair value results from selected hypothetical changes in interest and foreign currency exchange rates, equity prices and/or other market rates or prices over time.

The portfolios for which this analysis was performed included market risk sensitive transactions entered into by AIGFP and AIGTG. This includes over the counter and exchange traded investments, derivative transactions, borrowings and hedged securities and commodities. As 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 hedging was not done.

In each of these models, the market risks of AIGFP and AIGTG have been classified as changes in the level of either interest rates, foreign currency exchange rates, equity prices or commodity prices and the respective volatility of each. For each risk, four sensitivities were calculated under four scenarios with respect to the fair values of the portfolios at March 31, 1998. The four scenarios consisted of uniformly increasing or decreasing the relevant market rates or prices by 10 percent; and uniformly increasing or decreasing the relevant market volatility by 10 percent. For a given risk, the sensitivity presented herein was the largest potential loss in fair value assuming trade settlement under the most adverse of the four scenarios that could result in one day.

Not all market risk exposures that are managed by AIGFP and AIGTG are quantified by this analysis. In almost all currencies, changes in the slope and shape of the yield curve or changes in the relative value between certain types of financial instruments or between the same type of instruments in different currencies could affect the results of this analysis. Additionally, the following quantitative information does not take into account anticipated management reaction to breaches of counterparty credit limitations caused by the shocks within a given risk category. The actual results could differ from the

results of this analysis because market movements could be different from the scenarios that were considered or because the composition of the portfolio could change substantially with time. AIGFP is also exposed to uncertainty on the amount of dividends paid or the cost of borrowing certain equities.

The following table presents the one day exposure to the potential loss in fair value of each component of AIGFP's market risk as of March 31, 1998 under the most adverse scenario as mentioned above:

(in millions)

MARKET RISK	
Interest rate	\$ 9.0
Currency	31.3
Equity	8.4

The following table presents the one day exposure to potential loss in fair value of each component of AIGTG's market risk as of March 31, 1998 under the most adverse scenario as discussed above:

(in millions)

MARKET RISK	
Interest rate	\$3.2
Currency	4.2
Commodity	0.9

DERIVATIVES

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

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

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

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

An option contract generally provides the option purchaser with the right

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

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

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

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

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

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

agreements with its counterparties which are similar in effect to those discussed above.

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

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

except for certain contracts such as currency swaps.

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

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

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

(in thousands)

	REMAINING LIFE					TOTAL 1997
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1998	
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	\$60,673,000	\$83,104,000	\$48,706,000	\$ 9,643,000	\$202,126,000	\$200,491,000
Currency swaps	8,901,000	29,078,000	12,510,000	5,385,000	55,874,000	54,748,000
Swaptions and equity swaps	1,874,000	3,170,000	3,899,000	1,296,000	10,239,000	11,217,000
Total	\$71,448,000	\$115,352,000	\$65,115,000	\$16,324,000	\$268,239,000	\$266,456,000
Futures and forward contracts:						
Exchange traded futures contracts contractual amount						
	\$ 5,415,000	--	--	--	\$ 5,415,000	\$ 4,411,000
Over the counter forward contracts contractual amount						
	\$15,575,000	--	--	--	\$ 15,575,000	\$ 13,271,000

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

(in thousands)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 1998	TOTAL 1997
Counterparty credit quality:				
AAA	\$1,678,058	\$ 778	\$1,678,836	\$2,326,502
AA	3,173,673	18,251	3,191,924	2,311,104
A	951,617	675	952,292	1,165,410
BBB	834,164	--	834,164	608,495
Below investment grade	173,451	--	173,451	289,563
Total	\$6,810,963	\$19,704	\$6,830,667	\$6,701,074

At March 31, 1998 and December 31, 1997, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in thousands)

	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 1998	TOTAL 1997
Non-U.S. banks	\$2,404,022	\$18,866	\$2,422,888	\$2,263,305
Insured municipalities	726,983	--	726,983	757,514
U.S. industrials	498,949	--	498,949	514,041
Governmental	633,818	--	633,818	677,230
Non-U.S. financial service companies	52,512	--	52,512	64,787
Non-U.S. industrials	948,600	--	948,600	1,034,792
Special purpose	465,705	--	465,705	163,109
U.S. banks	340,863	--	340,863	584,915
U.S. financial service companies	552,977	838	553,815	433,710
Supranationals	186,534	--	186,534	207,671
Total	\$6,810,963	\$19,704	\$6,830,667	\$6,701,074

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

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at March 31, 1998 and December 31, 1997. These values do not represent the credit risk to AIGTG.

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

28

30

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

(in thousands)

	REMAINING LIFE				TOTAL 1998	TOTAL 1997
	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	\$ 19,019,435	\$2,214,957	\$ 25,448	\$ --	\$ 21,259,840	\$ 24,579,298
Forwards	\$263,004,803	\$13,572,198	\$1,330,734	\$ --	\$277,907,735	\$267,959,285
Over the counter purchased options	\$ 46,408,622	\$14,355,943	\$4,955,298	\$1,013,480	\$ 66,733,343	\$ 60,273,754
Over the counter sold options (a)	\$ 47,775,582	\$8,481,589	\$ 859,249	\$ 40,431	\$ 57,156,851	\$ 58,189,846
Notional amount:						
Interest rate swaps and forward rate agreements	\$ 59,550,741	\$16,441,442	\$2,908,933	\$ 230,797	\$ 79,131,913	\$ 77,502,650
Currency swaps	636,116	5,041,373	1,130,562	--	6,808,051	6,489,333
Swaptions	385,946	1,606,364	342,431	320,911	2,655,652	1,633,988
Total	\$ 60,572,803	\$23,089,179	\$4,381,926	\$ 551,708	\$ 88,595,616	\$ 85,625,971
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	\$ 6,839,716	\$1,272,178	\$ 314,990	\$ 26,181	\$ 8,453,065	\$ 11,019,717
Master netting arrangements	(4,105,257)	(430,402)	(84,234)	(9,290)	(4,629,183)	(5,798,311)
Collateral	(210,578)	(73,117)	(14,367)	--	(298,062)	(224,678)
Net replacement value (b)	\$ 2,523,881	\$ 768,659	\$ 216,389	\$ 16,891	\$ 3,525,820	\$ 4,996,728

- (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, swaptions 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.

29

31

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

(in thousands)

	NET REPLACEMENT VALUE	
	1998	1997

Counterparty credit quality:		
AAA	\$ 496,080	\$ 752,741
AA	1,610,159	2,503,289
A	752,227	1,023,650
BBB	351,110	342,695
Below investment grade	108,422	98,425
Not externally rated, including exchange traded futures and options*	207,822	275,928

Total	\$3,525,820	\$4,996,728

Counterparty breakdown by industry:		
Non-U.S. banks	\$1,369,791	\$2,685,998
U.S. industrials	187,236	163,484
Governmental	103,752	135,269
Non-U.S. financial service companies	264,050	260,412
Non-U.S. industrials	238,792	167,835
U.S. banks	477,082	560,388
U.S. financial service companies	677,295	747,414
Exchanges*	207,822	275,928

Total	\$3,525,820	\$4,996,728

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

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

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

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 the cumulative translation adjustment account in capital funds.

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

ACCOUNTING STANDARDS

In February 1997, FASB issued Statement of Financial Accounting Standards No. 128 "Earnings per Share" (FASB 128). This statement simplifies the existing computational guidelines, revises the disclosure requirements and increases earnings per share comparability on an international basis.

AIG adopted all requirements of FASB 128 at December 31, 1997 and all prior period information has been restated.

In June 1997, FASB issued Statement of Financial Accounting Standards No. 130 "Reporting

30

32

Comprehensive Income" (FASB 130) and Statement of Financial Accounting Standards No. 131 "Disclosure about Segments of an Enterprise and Related Information" (FASB 131).

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

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

RECENT DEVELOPMENTS

AIG is subject to the Year 2000 computer program issue. That is, certain of AIG's computer systems, software products or other business systems may not accept, input, store, or output dates in the years 1999, 2000 and thereafter without error or interruption. If such a deficiency is not corrected, it is possible that some applications could fail or create erroneous results by or at the year 2000.

AIG has already reviewed and identified its business systems, including computer programs that are subject to such Year 2000 risk. Accordingly, AIG commenced the remediation of such systems and such remediation and testing thereof is anticipated to be complete in advance of the year 2000. The costs of such remediation are expensed as incurred and are not material to AIG's results of operations, financial condition or liquidity.

AIG has also initiated formal communications to those non-AIG entities which have significant transactions with AIG to coordinate the Year 2000 conversions.

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

AIG has identified the significant issues and will be prepared with respect to the phase in of and ultimate redenomination to the Euro. Any costs associated with the adoption of the Euro are expensed as incurred and are not material to

AIG's results of operations, financial condition or liquidity.

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

PART II -- OTHER INFORMATION

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

(a) Exhibits

See accompanying Exhibit Index.

(b) Reports on Form 8-K

During the three months ended March 31, 1998, there was a current report on Form 8-K dated February 10, 1998 filed, which reported the Press Release of that date with respect to the earnings of AIG for the year ended December 31, 1997.

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, Chief
Financial Officer and Comptroller

Dated: May 14, 1998

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
27	Financial Data Schedule.....	Provided herewith.
99	Additional exhibits.....	None

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	1998 (A)	1997 (B)
Numerator:		
Net income (applicable to common stock).....	\$886,532	\$780,935
	=====	=====
Denominator:		
Average outstanding shares used in the computation of per share earnings:		
Common stock.....	759,121	759,126
Common stock in treasury.....	(59,605)	(54,867)
	-----	-----
Average outstanding shares -- basic.....	699,516	704,259
	-----	-----
Stock options (treasury stock method).....	3,406	2,905
Stock purchase plan.....	60	47
	-----	-----
Average outstanding shares -- diluted.....	702,982	707,211
	-----	-----
Net Income per share:		
Basic.....	\$ 1.27	\$ 1.11
	-----	-----
Diluted.....	\$ 1.26	\$ 1.10
	-----	-----

-
- (a) The number of common shares outstanding as of March 31, 1998 was 699,633,609. The number of common shares that would have been outstanding as of March 31, 1998 assuming the exercise or issuance of all potentially dilutive common shares is 703,282,415.
- (b) The 1997 share information is adjusted for a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997.

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
Income before income taxes.....	\$1,258,806	\$1,096,276
Less -- Equity income of less than 50% owned persons.....	34,084	25,193
Add -- Dividends from less than 50% owned persons.....	9,447	3,461
	-----	-----
	1,234,169	1,074,544
Add --		
Fixed charges.....	483,649	449,951
Less --		
Capitalized interest.....	14,898	11,851
	-----	-----
Income before income taxes and fixed charges.....	\$1,702,920	\$1,512,644
	=====	=====
Fixed charges:		
Interest costs.....	\$ 461,632	\$ 431,400
Rent expense*.....	22,017	18,551
	-----	-----
Total fixed charges.....	\$ 483,649	\$ 449,951
	=====	=====
Ratio of earnings to fixed charges.....	3.52	3.36

- -----
* 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 5.67 and 5.43 for 1998 and 1997, 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.

<ARTICLE> 7
<RESTATED>
<MULTIPLIER> 1,000
<CURRENCY> U.S. DOLLARS

<PERIOD-TYPE>	3-MOS	
<FISCAL-YEAR-END>		DEC-31-1998
<PERIOD-START>		JAN-01-1998
<PERIOD-END>		MAR-31-1998
<EXCHANGE-RATE>		1
<DEBT-HELD-FOR-SALE>		38,841,366
<DEBT-CARRYING-VALUE>		12,259,891
<DEBT-MARKET-VALUE>		12,976,893
<EQUITIES>		5,675,418
<MORTGAGE>		3,040,196
<REAL-ESTATE>		1,405,868
<TOTAL-INVEST>		122,827,360
<CASH>		145,138
<RECOVER-REINSURE>		16,206,870
<DEFERRED-ACQUISITION>		6,698,716
<TOTAL-ASSETS>		169,383,853
<POLICY-LOSSES>		58,683,384
<UNEARNED-PREMIUMS>		8,972,491
<POLICY-OTHER>		0
<POLICY-HOLDER-FUNDS>		12,978,766
<NOTES-PAYABLE>		17,433,725
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		1,897,804
<OTHER-SE>		23,068,536
<TOTAL-LIABILITY-AND-EQUITY>		169,383,853
<PREMIUMS>		5,615,816
<INVESTMENT-INCOME>		1,253,007
<INVESTMENT-GAINS>		55,409
<OTHER-INCOME>		(29,439)
<BENEFITS>		4,593,749
<UNDERWRITING-AMORTIZATION>		453,670
<UNDERWRITING-OTHER>		782,826
<INCOME-PRETAX>		1,258,806
<INCOME-TAX>		372,274
<INCOME-CONTINUING>		886,532
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		886,532
<EPS-PRIMARY>		1.27
<EPS-DILUTED>		1.26
<RESERVE-OPEN>		21,171,500
<PROVISION-CURRENT>		2,465,000
<PROVISION-PRIOR>		0
<PAYMENTS-CURRENT>		800,000
<PAYMENTS-PRIOR>		1,509,400
<RESERVE-CLOSE>		21,327,100
<CUMULATIVE-DEFICIENCY>		0