Securities and Exchange Commission
Washington, D.C. 20549

Form 10-K

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1997

OR

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

For the Transition period from___________________to____________________

Commission file number 1-8787

American International Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $2.50 Per Share	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
None

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

Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |_|.

The aggregate market value of the shares of all classes of voting stock of the registrant held by non-affiliates of the registrant on January 31, 1998 was approximately $55,311,490,000 computed upon the basis of the closing sales price of the Common Stock on that date.

As of January 31, 1998, there were outstanding 699,418,258 shares of Common Stock, $2.50 par value, of the registrant.

Documents Incorporated by Reference:

The registrant's definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held on May 20, 1998 is incorporated by reference in Part III of this Form 10-K.

PART I

ITEM 1. Business

American International Group, Inc. ("AIG"), a Delaware corporation, is a holding company which through its subsidiaries is primarily engaged in a broad range of insurance and insurance-related activities and financial services in the United States and abroad. AIG's primary activities include both general and life insurance operations. The principal insurance company subsidiaries are American Home Assurance Company ("American Home"), National Union Fire Insurance Company of Pittsburgh, Pa. ("National Union"), New Hampshire Insurance Company ("New Hampshire"), Lexington Insurance Company ("Lexington"), American International Underwriters Overseas, Ltd. ("AIUO"), American Life Insurance Company ("ALICO"), American International Assurance Company, Limited ("AIA"), Nan Shan Life Insurance Company, Ltd. ("Nan Shan"), The Philippine American Life and General Insurance Company ("PHILAM"), American International Reinsurance Company, Ltd. and United Guaranty Residential Insurance Company. For information on AIG's business segments, see Note 17 of Notes to Financial Statements.

All per share information herein gives retroactive effect to all stock dividends and stock splits. As of January 31, 1998, beneficial ownership of approximately 16.2 percent, 3.5 percent and 2.4 percent of AIG's Common Stock, $2.50 par value ("Common Stock"), was held by Starr International Company, Inc. ("SICO"), The Starr Foundation and C. V. Starr & Co., Inc. ("Starr"), respectively.

At December 31, 1997, AIG and its subsidiaries had approximately 40,000 employees.

The following table shows the general development of the business of AIG on a consolidated basis, the contributions made to AIG's consolidated revenues and operating income and the assets held, in the periods indicated by its general insurance, life insurance, financial services operations, equity in income of minority-owned insurance companies and other realized capital losses. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 17 of Notes to Financial Statements.)

(dollars in thousands)

Years Ended December 31,	1997	1996	1995	1994	1993
General insurance operations:					
Gross premiums written	$ 18,742,055	$ 18,319,132	$ 17,895,120	$ 16,392,409	$ 14,901,255
Net premiums written	13,407,529	12,691,679	11,893,022	10,865,753	10,025,903
Net premiums earned	12,421,040	11,854,815	11,405,731	10,286,831	9,566,640
Adjusted underwriting profit (a)	490,168	449,784	416,637	200,484	68,735
Net investment income	1,853,523	1,690,798	1,547,572	1,436,254	1,342,383
Realized capital gains	128,175	64,985	68,077	51,360	60,719
Operating income	2,471,866	2,205,567	2,032,286	1,688,098	1,471,837
Identifiable assets	62,386,262	58,791,735	56,223,416	51,556,410	47,161,017
Loss ratio	75.3	75.9	75.9	77.8	79.2
Expense ratio	20.9	20.6	20.7	20.5	20.3
Combined ratio	96.2	96.5	96.6	98.3	99.5
Life insurance operations:					
Premium income	9,925,639	8,978,246	8,038,150	6,724,321	5,746,046
Net investment income	2,896,469	2,675,881	2,264,905	1,748,428	1,499,714
Realized capital gains	21,186	34,798	32,703	86,706	54,576
Operating income	1,571,483	1,323,758	1,090,605	952,484	781,611
Identifiable assets	52,103,905	48,376,033	43,280,484	34,496,652	28,381,164
Insurance in-force at end of year	436,573,123	421,983,133	376,097,107	333,378,811	257,162,102
Financial services operations:					
Commissions, transaction and other fees	3,273,478	2,555,477	2,204,090	1,783,239	1,529,079
Operating income	701,337	523,906	417,741	404,853	390,038
Identifiable assets	51,756,123	43,861,592	36,833,772	30,660,776	25,514,258
Equity in income of minority-owned insurance operations	113,636	99,359	81,722	56,005	39,589
Other realized capital losses	(30,846)	(11,792)	(28,946)	(51,213)	(8,197)
Revenues (b)	30,602,300	27,942,567	25,614,004	22,121,931	19,830,549
Total assets	163,970,687	148,431,002	134,136,398	114,346,117	101,014,848

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

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

The following table shows identifiable assets, revenues and income derived from operations in the United States and Canada and from operations in other countries for the year ended December 31, 1997. (See also Note 17 of Notes to Financial Statements.)

(dollars in thousands)

	Total	United States and Canada	Other Countries	Percent of Total: United States and Canada	Percent of Total: Other Countries
General insurance operations:					
Net premiums earned	$ 12,421,040	$ 8,352,231	$ 4,068,809	67.2%	32.8%
Adjusted underwriting profit (loss)	490,168	(7,188)	497,356	--	--
Net investment income	1,853,523	1,484,558	368,965	80.1	19.9
Realized capital gains	128,175	57,017	71,158	44.5	55.5
Operating income	2,471,866	1,534,387	937,479	62.1	37.9
Identifiable assets	62,386,262	48,409,832	13,976,430	77.6	22.4
Life insurance operations:					
Premium income	9,925,639	553,203	9,372,436	5.6	94.4
Net investment income	2,896,469	838,931	2,057,538	29.0	71.0
Realized capital gains (losses)	21,186	(2,163)	23,349	--	--
Operating income	1,571,483	122,775	1,448,708	7.8	92.2
Identifiable assets	52,103,905	14,435,626	37,668,279	27.7	72.3
Financial services operations:					
Commissions, transaction and other fees	3,273,478	2,808,131	465,347	85.8	14.2
Operating income	701,337	424,846	276,491	60.6	39.4
Identifiable assets	51,756,123	45,451,790	6,304,333	87.8	12.2
Equity in income of minority-owned insurance operations	113,636	80,410	33,226	70.8	29.2
Other realized capital gains (losses)	(30,846)	(30,988)	142	--	--
Income before income taxes	4,698,898	2,015,556	2,683,342	42.9	57.1
Revenues	30,602,300	14,141,330	16,460,970	46.2	53.8
Total Assets	163,970,687	105,757,551	58,213,136	64.5	35.5

General Insurance Operations

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

AIG's business derived from brokers in the United States and Canada is conducted through its domestic brokerage group, consisting of American Home, National Union, Lexington and certain other insurance company subsidiaries of AIG. The primary casualty/risk management division of this group provides insurance and risk management programs for large corporate customers. The AIG Risk Finance division designs and implements creative risk financing alternatives using the insurance and financial services capabilities of AIG. Also included are the operations of New Hampshire and its subsidiaries, which focus specifically on providing AIG products and services through brokers to middle market companies, and regional insurance companies which service the commercial middle market.

The domestic brokerage division accepts business mainly from insurance brokers, enabling selection of specialized markets and retention of underwriting control. Any licensed broker is able to submit business to these companies without the traditional agent-company contractual relationship, but such broker usually has no authority to commit the companies to accept a risk.

In addition to writing substantially all classes of business insurance, including large commercial or industrial property insurance, excess liability, inland marine, workers' compensation and excess and umbrella coverages, the domestic brokerage division offers many specialized forms of insurance such as directors and officers liability, difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and omissions coverages. Lexington writes surplus lines, those risks for which conventional insurance companies do not readily provide insurance coverage, either because of complexity or because the coverage does not lend itself to conventional contracts.

Audubon Insurance Company and its subsidiaries ("Audubon") conduct agency marketing of personal and small commercial coverages in certain Southern and Western States.

AIG engages in mass marketing of personal lines coverages, primarily private passenger auto, through American International Insurance Company and New Hampshire Indemnity Company, Inc. as well as through a joint venture with 20th Century Industries.

The business of United Guaranty Corporation ("UGC") and its subsidiaries is also included in the domestic operations of AIG. The principal business of the UGC subsidiaries is the writing of residential mortgage loan insurance, which is guaranty insurance on conventional first mortgage loans on single-family dwellings and condominiums. Such insurance protects lenders against loss if borrowers default. UGC subsidiaries also write home equity and property improvement loan insurance on loans to finance residential property improvements, alterations and repairs and for other purposes not necessarily related to real estate. UGC had approximately $16 billion of mortgage guarantee risk in-force at December 31, 1997.

AIG's foreign general insurance business is comprised primarily of risks underwritten through American International Underwriters ("AIU"), a marketing unit consisting of wholly owned agencies and insurance companies. It also includes business written by foreign-based insurance subsidiaries of AIUO for their own accounts. In general, the same types of policies and marketing methods, with certain refinements for local laws, customs and needs, are used in these foreign operations as have been described above in connection with the domestic operations.

During 1997, domestic general and foreign general insurance business accounted for 67.4 percent and 32.6 percent, respectively, of AIG's net premiums written.

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

The following table summarizes general insurance premiums written and earned:

(in thousands)

Years Ended December 31,	Written	Earned
1997		
Gross premiums	$ 18,742,055	$ 17,565,566
Ceded premiums	(5,334,526)	(5,144,526)
Net premiums	$ 13,407,529	$ 12,421,040
1996		
Gross premiums	$ 18,319,132	$ 17,579,868
Ceded premiums	(5,627,453)	(5,725,053)
Net premiums	$ 12,691,679	$ 11,854,815
1995		
Gross premiums	$ 17,895,120	$ 17,243,829
Ceded premiums	(6,002,098)	(5,838,098)
Net premiums	$ 11,893,022	$ 11,405,731

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

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

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

The following table is a summary of the general insurance operations, including ratios, by major operating category for the year ended December 31, 1997. (See also Note 17(b) of Notes to Financial Statements.)

(dollars in thousands)

	Net Premiums Written	Net Premiums Earned	Ratio of Losses and Loss Expenses Incurred to Net Premiums Earned	Ratio of Underwriting Expenses Incurred to Net Premiums Written	Combined Ratio
Foreign	$ 4,369,989	$ 4,068,809	56.6	31.2	87.8
Commercial casualty (a)	7,041,086	6,428,763	83.2	15.0	98.2
Commercial property	485,621	408,437	101.1	12.3	113.4
Pools and associations (b)	358,275	369,294	136.3	26.1	162.4
Personal lines (c)	811,742	790,448	80.6	16.9	97.5
Mortgage guaranty	340,816	355,289	41.4	27.0	68.4
Total	$13,407,529	$12,421,040	75.3	20.9	96.2

(a) Including workers' compensation and retrospectively rated risks.
(b) Including involuntary pools.
(c) Including mass marketing and specialty programs.

Loss and expense ratios of AIG's consolidated general insurance operations are set forth in the following table. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

(dollars in thousands)

Years Ended December 31,	Net Premiums Written	Net Premiums Earned	Ratio of Losses and Loss Expenses Incurred to Net Premiums Earned	Ratio of Underwriting Expenses Incurred to Net Premiums Written	Combined Ratio	Underwriting Margin	Industry Combined Ratio*
1997	$13,407,529	$12,421,040	75.3	20.9	96.2	3.8	103.6
1996	12,691,679	11,854,815	75.9	20.6	96.5	3.5	106.3
1995	11,893,022	11,405,731	75.9	20.7	96.6	3.4	106.7
1994	10,865,753	10,286,831	77.8	20.5	98.3	1.7	108.9
1993	10,025,903	9,566,640	79.2	20.3	99.5	0.5	107.9

* Source: Best's Aggregates & Averages (Stock insurance companies, after dividends to policyholders) and the ratio for 1997 reflects estimated results provided by Conning & Company.

During 1997, of the direct general insurance premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded), 8.1 percent and 7.7 percent were written in New York and California , respectively (no other state accounted for more than 5 percent of such premiums).

There was no significant adverse effect on AIG's general insurance results of operations from the economic environments in any one state, country or geographic region for the year ended December 31, 1997. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development

The reserve for net losses and loss expenses is exclusive of applicable reinsurance and represents the accumulation of estimates for reported losses ("case basis reserves") and provisions for losses incurred but not reported ("IBNR"). AIG does not discount its loss reserves other than for minor amounts related to workers' compensation claims.

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

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

The "Analysis of Consolidated Net Losses and Loss Expense Reserve

Development", which follows, presents the development of net losses and loss expense reserves for calendar years 1987 through 1997. The upper half of the table shows the cumulative amounts paid during successive years related to the opening loss reserves. For example, with respect to the net losses and loss expense reserve of $14,699.2 million as of December 31, 1990, by the end of 1997 (seven years later) $13,235.3 million had actually been paid in settlement of these net loss reserves. In addition, as reflected in the lower section of the table, the original reserve of $14,699.2 million was reestimated to be $16,160.8 million at December 31, 1997. This increase from the original estimate would generally be a combination of a number of factors, including reserves being settled for larger amounts than originally estimated. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claim frequency and severity patterns. The redundancy (deficiency) depicted in the table, for any particular calendar year, shows the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective column heading. For example, the redundancy of $398.6 million at December 31, 1997 related to December 31, 1996 net losses and loss expense reserves of $20,407.3 million represents the cumulative amount by which reserves for 1996 and prior years have developed redundantly during 1997.

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

Analysis of Consolidated Net Losses and
Loss Expense Reserve Development

(in millions)

	1987	1988	1989	1990	1991	1992	1993	1994
Reserve for Net Losses and Loss Expenses, December 31,	$ 8,670.7	$11,086.1	$12,958.5	$14,699.2	$15,839.9	$16,756.8	$17,557.0	$18,418.9
Paid (Cumulative) as of:								
One Year Later	2,619.2	3,266.9	3,940.3	4,315.2	4,747.8	4,882.7	5,146.3	4,775.0
Two Years Later	4,315.9	5,451.5	6,476.6	7,349.7	8,015.4	8,289.4	8,241.7	8,072.6
Three Years Later	5,496.6	6,904.5	8,350.8	9,561.0	10,436.2	10,433.1	10,403.5	10,333.1
Four Years Later	6,207.5	7,966.2	9,721.3	11,223.5	11,814.8	11,718.1	12,095.1	
Five Years Later	6,757.2	8,792.1	10,764.8	12,111.6	12,611.4	12,930.5		
Six Years Later	7,246.1	9,449.6	11,284.8	12,614.9	13,472.0			
Seven Years Later	7,616.7	9,737.0	11,517.3	13,235.3				
Eight Years Later	7,771.9	9,813.0	11,952.7					
Nine Years Later	7,764.7	10,139.5						
Ten Years Later	8,040.3							
Net Liability Reestimated as of:								
End of Year	8,670.7	11,086.1	12,958.5	14,699.2	15,839.9	16,756.8	17,557.0	18,418.9
One Year Later	8,523.6	10,923.8	12,844.5	14,596.2	15,828.1	16,807.0	17,434.3	18,138.5
Two Years Later	8,492.4	10,856.9	12,843.9	14,595.4	15,902.9	16,603.4	17,479.1	18,268.9
Three Years Later	8,488.1	10,811.9	12,809.2	14,723.7	15,989.7	16,778.3	17,781.7	18,344.4
Four Years Later	8,472.3	10,774.9	12,896.4	14,965.4	16,254.2	17,181.7	18,089.8	
Five Years Later	8,472.0	10,805.1	13,064.6	15,361.2	16,712.4	17,600.1		
Six Years Later	8,470.0	10,953.6	13,426.0	15,844.5	17,094.9			
Seven Years Later	8,577.4	11,301.5	13,930.7	16,160.8				
Eight Years Later	8,912.3	11,798.9	14,179.7					
Nine Years Later	9,391.1	12,024.9						
Ten Years Later	9,646.0							
Redundancy/(Deficiency)	(975.3)	(938.8)	(1,221.2)	(1,461.6)	(1,255.0)	(843.3)	(532.8)	74.5

(in millions)

	1995	1996	1997
Reserve for Net Losses and Loss Expenses, December 31,	$19,692.8	$20,407.3	$21,171.5
Paid (Cumulative) as of:			
One Year Later	5,281.4	5,615.7	
Two Years Later	8,726.1		
Three Years Later			
Four Years Later			
Five Years Later			
Six Years Later			
Seven Years Later			
Eight Years Later			
Nine Years Later			
Ten Years Later			
Net Liability Reestimated as of:			
End of Year	19,692.8	20,407.3	21,171.5
One Year Later	19,412.8	20,008.7	
Two Years Later	19,329.9		
Three Years Later			
Four Years Later			
Five Years Later			
Six Years Later			
Seven Years Later			
Eight Years Later			
Nine Years Later			
Ten Years Later			
Redundancy/(Deficiency)	362.9	398.6	

The following table excludes for each calendar year the net loss and loss expense reserves and the development thereof with respect to asbestos and environmental claims. Thus, AIG's loss and loss expense reserves excluding asbestos and environmental claims are developing adequately. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

Analysis of Consolidated Net Losses and Loss Expense Reserve Development Excluding Asbestos and Environmental Net Losses and Loss Expense Reserve Development

(in millions)

	1987	1988	1989	1990	1991	1992	1993	1994
Reserve for Net Losses and Loss Expenses, Excluding Asbestos and Environmental Losses and Loss Expenses, December 31,	$ 8,630.6	$11,005.9	$12,838.3	$14,538.9	$15,639.5	$16,503.4	$17,248.7	$18,088.6
Paid (Cumulative) as of:								
One Year Later	2,619.2	3,266.9	3,940.3	4,259.7	4,690.8	4,766.1	5,060.9	4,699.6
Two Years Later	4,315.9	5,451.5	6,422.0	7,237.4	7,842.0	8,087.9	8,081.5	7,890.5
Three Years Later	5,496.6	6,850.5	8,240.1	9,332.8	10,178.1	10,157.3	10,137.0	10,047.8
Four Years Later	6,155.7	7,856.9	9,495.6	10,911.6	11,482.9	11,336.9	11,726.0	
Five Years Later	6,655.0	8,569.4	10,456.3	11,726.6	12,174.8	12,447.5		
Six Years Later	7,032.7	9,145.1	10,904.3	12,125.9	12,934.5			
Seven Years Later	7,322.1	9,361.6	11,033.5	12,646.3				
Eight Years Later	7,407.3	9,338.8	11,370.0					
Nine Years Later	7,306.3	9,569.5						
Ten Years Later	7,489.2							
Net Liability Reestimated as of:								
End of Year	8,630.6	11,005.9	12,838.3	14,538.9	15,639.5	16,503.4	17,248.7	18,088.6
One Year Later	8,443.4	10,803.6	12,684.2	14,340.7	15,518.4	16,382.3	17,019.2	17,556.0
Two Years Later	8,372.2	10,696.6	12,590.9	14,231.6	15,422.4	16,072.6	16,812.6	17,355.2
Three Years Later	8,327.8	10,562.2	12,449.4	14,190.1	15,402.9	15,996.7	16,790.0	17,292.7
Four Years Later	8,227.0	10,419.9	12,367.5	14,326.7	15,416.9	16,081.1	16,959.7	
Five Years Later	8,127.6	10,282.2	12,430.8	14,472.0	15,562.1	16,361.5		
Six Years Later	7,961.4	10,325.8	12,544.1	14,648.3	15,807.8			
Seven Years Later	7,962.8	10,429.9	12,747.8	14,828.3				
Eight Years Later	8,056.3	10,635.4	12,861.2					
Nine Years Later	8,254.5	10,727.7						
Ten Years Later	8,377.6							
Redundancy/(Deficiency):	253.0	278.2	(22.9)	(289.4)	(168.3)	141.9	289.0	795.9

(in millions)

	1995	1996	1997
Reserve for Net Losses and Loss Expenses, Excluding Asbestos and Environmental Losses and Loss Expenses, December 31,	$19,185.6	$19,664.4	$20,384.2
Paid (Cumulative) as of:			
One Year Later	5,174.1	5,507.0	
Two Years Later	8,515.2		
Three Years Later			
Four Years Later			
Five Years Later			
Six Years Later			
Seven Years Later			
Eight Years Later			
Nine Years Later			
Ten Years Later			
Net Liability Reestimated as of:			
End of Year	19,185.6	19,664.4	20,384.2
One Year Later	18,567.7	19,118.0	
Two Years Later	18,347.1		
Three Years Later			
Four Years Later			
Five Years Later			
Six Years Later			
Seven Years Later			
Eight Years Later			
Nine Years Later			
Ten Years Later			
Redundancy/(Deficiency):	838.5	546.4	

Reconciliation of Net Reserve for Losses and Loss Expenses

(in millions)

	1997	1996	1995

Net reserve for losses and loss expenses at beginning of year	$20,407.3	$19,692.8	$18,418.9
Losses and loss expenses incurred:			
Current year	9,732.6	9,272.4	8,935.4
Prior years*	(376.4)	(276.0)	(275.6)
	9,356.2	8,996.4	8,659.8
Losses and loss expenses paid:			
Current year	2,976.3	3,000.5	2,610.9
Prior years	5,615.7	5,281.4	4,775.0
	8,592.0	8,281.9	7,385.9
Net reserve for losses and loss expenses at end of year	$21,171.5	$20,407.3	$19,692.8

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

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

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

The reserve for losses and loss expenses as reported in AIG's Consolidated Balance Sheet at December 31, 1997, differs from the total reserve reported in the Annual Statements filed with state insurance departments and, where appropriate, with foreign regulatory authorities. The differences at December 31, 1997 relate primarily to estimates for unrecoverable reinsurance and additional reserves relating to certain foreign operations. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

The reserve for gross losses and loss expenses is prior to reinsurance and represents the accumulation for reported losses and

IBNR. Management reviews the adequacy of established gross loss reserves in the manner previously described for net loss reserves.

The "Analysis of Consolidated Gross Losses and Loss Expense Reserve Development", which follows, presents the development of gross losses and loss expense reserves for calendar years 1992 through 1997. As with the net losses and loss expense reserve development, the deficiencies of $1.54 billion and $973.5 million for 1992 and 1993, and redundancies of $610.7 million, $649.2 million and $653.0 million for 1994, 1995 and 1996, respectively, are relatively insignificant both in terms of an aggregate amount and as a percentage of the initial reserve balance.

Analysis of Consolidated Gross Losses and
Loss Expense Reserve Development

(in millions)

	1992	1993	1994	1995	1996	1997
Gross losses and loss expenses, December 31,	$28,156.8	$30,046.2	$31,435.4	$33,046.7	$33,429.8	$33,400.1
Paid (cumulative) as of:						
One Year Later	7,280.9	8,807.1	7,640.0	8,392.1	9,199.2	
Two Years Later	13,006.0	13,278.7	13,035.8	15,496.1		
Three Years Later	16,432.3	17,311.4	17,539.5			
Four Years Later	18,550.0	20,803.0				
Five Years Later	21,321.7					
Gross Liability Reestimated as of:						
End of Year	28,156.8	30,046.2	31,435.4	33,046.7	33,429.8	33,400.1
One Year Later	28,253.4	29,865.9	30,758.9	32,371.7	32,776.8	
Two Years Later	27,824.8	29,536.5	30,960.0	32,397.5		
Three Years Later	27,726.8	30,362.0	30,824.7			
Four Years Later	28,625.0	31,019.7				
Five Years Later	29,700.7					
Redundancy/(Deficiency)	(1,543.9)	(973.5)	610.7	649.2	653.0	

Life Insurance Operations

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

In the United States, AIG has four domestic life subsidiaries: American International Life Assurance Company of New York, AIG Life Insurance Company, Delaware American Life Insurance Company, and Pacific Union Assurance Company. These companies utilize multiple distribution channels including brokerage and career and general agents to offer primarily life insurance, financial and investment products and specialty forms of accident and health coverage for individuals and groups, including employee benefit plans. The domestic life business comprised 5.6 percent of total life premium income in 1997.

Life insurance operations in foreign countries comprised 94.4 percent of life premium income and 92.2 percent of operating income in 1997. AIG operates overseas principally through four subsidiary companies, ALICO, AIA , Nan Shan and PHILAM. Although ALICO is incorporated in Delaware, all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in approximately 50 countries located in Europe, Africa, Latin America, the Caribbean, the Middle East, and the Far East, with Japan being the largest territory. AIA operates primarily in Hong Kong, Singapore, Malaysia and Thailand. Nan Shan operates in Taiwan while PHILAM operates in the Philippines. There was no significant adverse effect on AIG's life insurance results of operations from economic environments in any one state, country or geographic region for the year ended December 31, 1997. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

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

In addition to the above, AIG also has subsidiary operations in Switzerland (American Security Life Insurance Company, Ltd.), Puerto Rico (AIG Life Insurance Company of Puerto Rico) and conducts life insurance business through AIUO subsidiary companies in certain countries in Central and South America.

The foreign life companies have approximately 115,000 career agents and sell their products largely to indigenous persons in local currencies. In addition to the agency outlets, these companies also distribute their products through direct marketing channels, such as mass marketing, and through brokers and other distribution outlets such as financial institutions.

The following table summarizes the life insurance operating results for the year ended December 31, 1997. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations.)

(dollars in thousands)

	Premium Income	Net Investment Income	Operating Income(a)	Direct Insurance In-Force	Average Termination Rate Lapse	Average Termination Rate Other
Individual:						
Life	$7,543,752	$2,023,008	$1,016,859	$328,203,146(b)	7.1%	1.7%
Annuity	144,030	465,373	73,039	(c)		
Accident and health	1,225,932	98,208	344,664	(c)		
Group:						
Life	433,100	28,358	55,635	108,369,977	6.9%	7.2%
Pension	99,217	267,127	30,374	(c)		
Accident and health	479,608	24,744	40,075	(c)		
Realized capital gains	--	--	21,186	(c)		
Consolidation adjustments	--	(10,349)	(10,349)	(c)		
Total	$9,925,639	$2,896,469	$1,571,483	$436,573,123		

(a) Including income related to investment type products.
(b) Including $231.4 billion of whole life insurance and endowments.
(c) Not applicable.

Insurance Investment Operations

A significant portion of AIG's general and life operating revenues are derived from AIG's insurance investment operations. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 2, 8 and 17 of Notes to Financial Statements.)

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

(dollars in thousands)

	General	Life	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution 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 stocks, at amortized cost.
(c) Includes $111,609 of preferred stocks, at market value.

The following table summarizes the investment results of the general insurance operations. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of Notes to Financial Statements.)

(dollars in thousands)

Years Ended December 31,	Annual Average Cash and Invested Assets: Cash (including short-term investments)	Invested Assets(a)	Total	Net Investment Income(b)	Rate of Return on Invested Assets		Realized Capital Gains
1997	$ 611,023	$29,704,089	$30,315,112	$1,853,523	6.1% (c)	6.2% (d)	$128,175
1996	630,031	27,047,770	27,677,801	1,690,798	6.1 (c)	6.3 (d)	64,985
1995	825,200	24,417,024	25,242,224	1,547,572	6.1 (c)	6.3 (d)	68,077
1994	1,441,800	21,837,304	23,279,104	1,436,254	6.2 (c)	6.6 (d)	51,360

1993	1,824,622	19,734,571	21,559,193	1,342,383	6.2 (c)	6.8 (d)	60,719

(a) Including investment income due and accrued and real estate.
(b) Net investment income is after deduction of investment expenses and excludes realized capital gains.
(c) Net investment income divided by the annual average sum of cash and invested assets.
(d) Net investment income divided by the annual average invested assets.

The following table summarizes the investment results of the life insurance operations. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of Notes to Financial Statements.)

(dollars in thousands)

Years Ended December 31,	Annual Average Cash and Invested Assets: Cash (including short-term investments)	Invested Assets(a)	Total	Net Investment Income(b)	Rate of Return on Invested Assets		Realized Capital Gains
1997	$1,705,707	$38,063,713	$39,769,420	$2,896,469	7.3%(c)	7.6%(d)	$21,186
1996	1,116,938	35,563,517	36,680,455	2,675,881	7.3(c)	7.5(d)	34,798
1995	1,222,375	29,557,181	30,779,556	2,264,905	7.4(c)	7.7(d)	32,703
1994	2,045,747	22,317,914	24,363,661	1,748,428	7.2(c)	7.8(d)	86,706
1993	2,697,282	17,286,171	19,983,453	1,499,714	7.5(c)	8.7(d)	54,576

(a) Including investment income due and accrued and real estate.
(b) Net investment income is after deduction of investment expenses and excludes realized capital gains.
(c) Net investment income divided by the annual average sum of cash and invested assets.
(d) Net investment income divided by the annual average invested assets.

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

Financial Services Operations

AIG operations which contribute to financial services income include primarily A.I. Credit Corp. ("AICCO"), AIG Financial Products Corp. and its subsidiary companies ("AIGFP"), AIG Trading Group Inc. and its subsidiaries ("AIGTG"), International Lease Finance Corporation ("ILFC") and UeberseeBank AG. AICCO's business is principally in premium financing. AIGFP structures financial transactions, including long-dated interest rate and currency swaps and structures borrowings through notes, bonds and guaranteed investment agreements. AIGTG engages in various commodities trading, foreign exchange trading and market making activities. ILFC is engaged primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. UeberseeBank AG operates as a Swiss bank. Other financial services operations are AIG Global Investment Group, Inc. whose operations manage the investment portfolios of various AIG subsidiaries, as well as third-party assets, and are responsible for product design and origination, marketing and distribution of third-party asset management products, including retail mutual funds, direct investment, and real estate investment, management and development. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 9 and 11 of Notes to Financial Statements.)

The following table is a summary of the composition of AIG's financial services invested assets and liabilities at December 31, 1997. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of Notes to Financial Statements.)

(in thousands)

Financial services invested assets:	
Flight equipment primarily under operating leases, net of accumulated depreciation	$14,438,074
Securities available for sale, at market value	9,145,317
Trading securities, at market value	3,974,561
Spot commodities, at market value	459,517
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,422,290
Trading assets	6,715,486
Securities purchased under agreements to resell, at contract value	4,551,191
Other, including short-term investments	2,192,691
Total financial services invested assets	$48,899,127
Financial services liabilities:	
Borrowings under obligations of guaranteed investment agreements	$ 8,000,326
Securities sold under agreements to repurchase, at contract value	2,706,310
Trading liabilities	5,366,421
Securities and spot commodities sold but	

not yet purchased, at market value	5,171,680
Unrealized loss on interest rate and currency	
swaps, options and forward transactions	5,979,571
Deposits due to banks and other depositors	972,423
Commercial paper	2,208,167
Notes, bonds and loans payable	12,608,891
Total financial services liabilities	$43,013,789

The following table is a summary of the revenues and operating income of AIG's principal financial services operations for the year ended December 31, 1997. (See also Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of Notes to Financial Statements.)

(in thousands)	Revenues	Operating Income
ILFC	$1,856,763	$ 382,431
AIGFP*	452,052	240,970
AIGTG*	561,784	126,536

* Represents net trading revenues.

Other Operations

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

Additional Investments

On January 29, 1998, AIG purchased the 76.1 percent interest in SELIC Holdings, Ltd. which it previously did not own. As of March 15, 1998, AIG holds a 48.9 percent interest in Transatlantic Holdings, Inc., a reinsurance holding company, and a 19.9 percent interest in Richmond Insurance Company, Ltd., a reinsurer. (See also Note 1(n) of Notes to Financial Statements.) AIG holds a 24.4 percent interest in IPC Holdings, Ltd., a reinsurance holding company. Another significant investment includes a minority position in 20th Century Industries.

Locations of Certain Assets

As of December 31, 1997, approximately 36 percent of the consolidated assets of AIG were located in foreign countries (other than Canada), including $929.6 million of cash and securities on deposit with foreign regulatory authorities. Foreign operations and assets held abroad may be adversely affected by political developments in foreign countries, including such possibilities as tax changes, nationalization and changes in regula tory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of such assets. Certain of the countries in which AIG's business is conducted have currency restrictions which generally cause a delay in a company's ability to repatriate assets and profits. (See also Notes 1, 2 and 17 of Notes to Financial Statements.)

Insurance Regulation and Competition

Certain states require registration and periodic reporting by insurance companies which are licensed in such states and are controlled by other corporations. Applicable legislation typically requires periodic disclosure concerning the corporation which controls the registered insurer and the other companies in the holding company system and prior approval of intercorporate transfers of assets (including in some instances payment of dividends by the insurance subsidiary) within the holding company system. AIG's subsidiaries are registered under such legislation in those states which have such requirements. (See also Note 10 of Notes to Financial Statements.)

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

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

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

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

The statutory surplus of each of AIG's domestic general and life insurance subsidiaries exceeded their RBC standards by considerable margins as of December 31, 1997.

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

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

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

The insurance industry is highly competitive. Within the United States, AIG's general insurance subsidiaries compete with approximately 3,000 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. AIG's life insurance companies compete in the United States with some 1,700 life insurance companies and other participants in related financial service fields. Overseas, AIG subsidiaries compete for business with foreign insurance operations of the larger U.S. insurers and local companies in particular areas in which they are active.

AIG's financial services subsidiaries, particularly AIGTG and AIGFP, operate in a highly competitive environment, both domestically and overseas. Principal sources of competition are banks, investment banks and other non-bank financial institutions.

ITEM 2. Properties

AIG and its subsidiaries operate from approximately 350 offices in the United States, 5 offices in Canada and numerous offices in other foreign countries. The offices in Springfield, Illinois; Houston, Texas; Atlanta, Georgia; Baton Rouge, Louisiana; Wilmington, Delaware; Hato Rey, Puerto Rico; San Diego, California; Greensboro, North Carolina; Livingston, New Jersey; 70 Pine Street, 72 Wall Street and 175 Water Street in New York City; and offices in approximately 30 foreign countries including Bermuda, Chile, Hong Kong, the Philippines, Japan, England, Singapore, Switzerland, Taiwan and Thailand are located in buildings owned by AIG and its subsidiaries. The remainder of the office space utilized by AIG subsidiaries is leased.

ITEM 3. Legal Proceedings

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

ITEM 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of 1997.

Directors and Executive Officers of the Registrant

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

Name	Title	Age	Served as Director or Officer Since
M. Bernard Aidinoff*	Director	69	1984
Lloyd M. Bentsen	Director	77	1995
Pei-yuan Chia	Director	59	1996
Marshall A. Cohen	Director	62	1992
Barber B. Conable, Jr.	Director	75	1991
Martin S. Feldstein	Director	58	1987
Leslie L. Gonda	Director	78	1990
Evan G. Greenberg*	Director, President and Chief Operating Officer	43	1995
M. R. Greenberg*	Director, Chairman and Chief Executive Officer	72	1967
Carla A. Hills	Director	64	1993
Frank J. Hoenemeyer*	Director	78	1985
Edward E. Matthews*	Director and Vice Chairman-Investments and Financial Services	66	1973
Dean P. Phypers	Director	69	1979
Howard I. Smith	Director, Executive Vice President, Chief Financial Officer and Comptroller	53	1984
Thomas R. Tizzio*	Director and Senior Vice Chairman-General Insurance	60	1982
Edmund S. W. Tse	Director and Vice Chairman-Life Insurance	60	1991
Frank G. Wisner	Director and Vice Chairman-External Affairs	59	1997
Edwin E. Manton	Senior Advisor	89	1967
John J. Roberts	Senior Advisor	75	1967
Ernest E. Stempel	Senior Advisor	81	1967
Robert M. Sandler	Executive Vice President, Senior Casualty Actuary and Senior Claims Officer	55	1980
Lawrence W. English	Senior Vice President-Administration	56	1985
Axel I. Freudmann	Senior Vice President-Human Resources	51	1986
Win J. Neuger	Senior Vice President and Chief Investment Officer	48	1995
Martin J. Sullivan	Senior Vice President-Foreign General Insurance	43	1997
Florence A. Davis	Vice President and General Counsel	43	1995
William N. Dooley	Vice President and Treasurer	44	1992
Robert E. Lewis	Vice President and Chief Credit Officer	47	1993
Frank Petralito II	Vice President and Director of Taxes	61	1978
Kathleen E. Shannon	Vice President and Secretary	48	1986
John T. Wooster, Jr.	Vice President-Communications	58	1989

* Member of Executive Committee.

Except as hereinafter noted, each of the directors who is also an executive officer of AIG and each of the other executive officers has, for more than five years, occupied an executive position with AIG or companies that are now its subsidiaries, or with Starr. Evan G. Greenberg is the son of M.R. Greenberg. There are no other arrangements or understandings between any director or officer and any other person pursuant to which the director or officer was elected to such position. Ms. Davis was a Principal in the legal department and Worldwide Director of Compliance at Morgan Stanley &Co. Incorporated prior to joining AIG in April, 1995. Mr. Lewis was Assistant General Manager for North America, Chief Credit Officer, and senior executive responsible for risk and exposure management of ING Bank in New York, the bank division of Internationale Nederlanden Group, from 1988 until joining AIG in October, 1993. Mr. Neuger was Managing Director, Global Investment Management-Equity at Bankers Trust Company prior to joining AIG in February, 1995. Mr. Wisner served as a career foreign service officer with the United States Department of State from 1961 through July, 1997, with his last position being Ambassador to India.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Security Holder Matters

(a) The table below shows the high and low closing sales prices per share of AIG's common stock, as reported on the New York Stock Exchange Composite Tape, for each quarter of 1997 and 1996, as adjusted for the common stock split in the form of a 50 percent common stock dividend paid July 25, 1997. All prices are as reported by the National Quotation Bureau, Incorporated.

	1997		1996	
	High	Low	High	Low
First Quarter	85 5/16	71 11/16	68 1/2	59 9/16
Second Quarter	100 3/16	76	65 3/4	58 3/4
Third Quarter	106 1/2	94 3/8	67 1/4	60 1/16
Fourth Quarter	111 15/16	98	76 3/4	67 11/16

(b) In 1997, AIG paid a quarterly dividend of 6.7 cents in March and June and 7.5 cents in September and December for a total cash payment of 28.4 cents per share of common stock. In 1996, AIG paid a quarterly dividend of 5.7 cents in March and June and 6.7 cents in September and December for a total cash payment of 24.8 cents per share of common stock. These amounts reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997. Subject to the dividend preference of any of AIG's serial preferred stock which may be outstanding, the holders of shares of common stock are entitled to receive such dividends as may be declared by the Board of Directors from funds legally available therefor.

See Note 10(b) of Notes to Financial Statements for a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries.

(c) The approximate number of holders of Common Stock as of January 31, 1998, based upon the number of record holders, was 20,700.

ITEM 6. Selected Financial Data
American INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

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

(in thousands, except per share amounts)

Years Ended December 31,	1997	1996	1995	1994	1993
Revenues (a)	$ 30,602,300	$ 27,942,567	$ 25,614,004	$ 22,121,931	$ 19,830,549
General insurance:					
Net premiums written	13,407,529	12,691,679	11,893,022	10,865,753	10,025,903
Net premiums earned	12,421,040	11,854,815	11,405,731	10,286,831	9,566,640
Adjusted underwriting profit	490,168	449,784	416,637	200,484	68,735
Net investment income	1,853,523	1,690,798	1,547,572	1,436,254	1,342,383
Realized capital gains	128,175	64,985	68,077	51,360	60,719
Operating income	2,471,866	2,205,567	2,032,286	1,688,098	1,471,837
Life insurance:					
Premium income	9,925,639	8,978,246	8,038,150	6,724,321	5,746,046
Net investment income	2,896,469	2,675,881	2,264,905	1,748,428	1,499,714
Realized capital gains	21,186	34,798	32,703	86,706	54,576
Operating income	1,571,483	1,323,758	1,090,605	952,484	781,611
Financial services operating income	701,337	523,906	417,741	404,853	390,038
Equity in income of minority-owned insurance operations	113,636	99,359	81,722	56,005	39,589
Other realized capital losses	(30,846)	(11,792)	(28,946)	(51,213)	(8,197)
Income before income taxes and cumulative effect of accounting changes	4,698,898	4,013,222	3,465,883	2,951,979	2,601,081
Income taxes	1,366,563	1,115,965	955,500	776,464	683,003
Income before cumulative effect of accounting changes	3,332,335	2,897,257	2,510,383	2,175,515	1,918,078
Cumulative effect of accounting changes, net of tax:					
Minority-owned insurance operations	--	--	--	--	20,695
Net income	3,332,335	2,897,257	2,510,383	2,175,515	1,938,773
Earnings per common share (b):					
Income before cumulative effect of accounting changes	4.75	4.10	3.53	3.05	2.68
Cumulative effect of accounting changes, net of tax:					
Minority-owned insurance operations	--	--	--	--	.03
Basic	4.75	4.10	3.53	3.05	2.71
Diluted	4.73	4.08	3.52	3.05	2.70
Cash dividends per common share	.28	.25	.21	.19	.17
Total assets	163,970,687	148,431,002	134,136,398	114,346,117	101,014,848
Long-term debt (c)	17,813,908	17,506,359	14,452,851	12,613,907	10,955,963
Capital funds (shareholders' equity)	24,001,127	22,044,224	19,827,103	16,421,661	15,224,195

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

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

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

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Operational Review

General Insurance Operations

General insurance operations for the twelve month periods ending December 31, 1997, 1996 and 1995 were as follows:

(in thousands)

	1997	1996	1995
Net premiums written:			
Domestic	$ 9,037,540	$ 8,366,832	$ 7,690,207
Foreign	4,369,989	4,324,847	4,202,815
Total	$ 13,407,529	$12,691,679	$11,893,022
Net premiums earned:			
Domestic	$ 8,352,231	$ 7,821,605	$ 7,322,531
Foreign	4,068,809	4,033,210	4,083,200
Total	$ 12,421,040	$11,854,815	$11,405,731
Adjusted underwriting profit (loss):			
Domestic	$ (7,188)	$ 51,819	$ 111,606
Foreign	497,356	397,965	305,031
Total	$ 490,168	$ 449,784	$ 416,637
Net investment income:			
Domestic	$ 1,484,558	$ 1,351,563	$ 1,241,994
Foreign	368,965	339,235	305,578
Total	$ 1,853,523	$ 1,690,798	$ 1,547,572
Operating income before realized capital gains:			
Domestic	$ 1,477,370	$ 1,403,382	$ 1,353,600
Foreign	866,321	737,200	610,609
Total	2,343,691	2,140,582	1,964,209
Realized capital gains	128,175	64,985	68,077
Operating income	$ 2,471,866	$ 2,205,567	$ 2,032,286

In AIG's general insurance operations, 1997 net premiums written and net premiums earned increased 5.6 percent and 4.8 percent, respectively, from those of 1996. In 1996, net premiums written increased 6.7 percent and net premiums earned increased 3.9 percent when compared to 1995.

The growth in net premiums written in 1997 and 1996 resulted from a combination of several factors. Domestically, AIG continued to achieve volume growth in some specialty markets, mortgage guaranty insurance and in personal lines. Foreign general insurance operations produced 32.6 percent of the general insurance net premiums written in 1997, 34.1 percent in 1996 and 35.3 percent in 1995.

In comparing the foreign exchange rates used to translate the results of AIG's foreign general operations during 1997 to those foreign exchange rates used to translate AIG's foreign general results during 1996, 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 2.0 percentage points less than they would have been if translated utilizing those exchange rates which prevailed during 1996. (See also the discussion under "Capital Resources" herein.)

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

The statutory general insurance ratios were as follows:

	1997	1996	1995
Domestic:			

Loss Ratio	84.44	85.21	85.11
Expense Ratio	15.90	14.79	14.17
Combined Ratio	100.34	100.00	99.28
Foreign:			
Loss Ratio	56.61	57.82	59.46
Expense Ratio	31.16	31.77	32.49
Combined Ratio	87.77	89.59	91.95
Consolidated:			
Loss Ratio	75.33	75.89	75.93
Expense Ratio	20.87	20.58	20.65
Combined Ratio	96.20	96.47	96.58

Adjusted underwriting profit or loss (operating income less net investment income and realized capital gains) represents statutory underwriting profit or loss adjusted primarily for changes in deferred acquisition costs. The adjusted underwriting profits were $490.2 million in 1997, $449.8 million in 1996 and $416.6 million in 1995. (See also Notes 4 and 17 of Notes to Financial Statements.)

AIG's results reflect the net impact of incurred losses from catastrophes approximating $16 million in 1997, $78 million in 1996 and $100 million in 1995. AIG's gross incurred losses from catastrophes approximated $22 million in 1997, $240 million in 1996 and $190 million in 1995. The Kobe Japan earthquake which struck in early 1995 resulted in gross and net incurred losses to AIG of approximately $73 million and $30 million, respectively. If these catastrophes were excluded from the losses incurred in each period, the pro forma consolidated statutory general insurance ratios would be as follows:

	1997	1996	1995
Loss Ratio	75.20	75.23	75.05
Expense Ratio	20.87	20.58	20.65
Combined Ratio	96.07	95.81	95.70

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 1997 increased 9.6 percent when compared to 1996. In 1996, net investment income increased 9.3 percent over 1995. The growth in net investment income in each of the three years was primarily attributable to new cash flow for investment. The new cash flow was generated from net general insurance operating cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein and Note 8 of Notes to Financial Statements.)

General insurance realized capital gains were $128.2 million in 1997, $65.0 million in 1996 and $68.1 million in 1995. 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 1997 increased 12.1 percent when compared to 1996. The 1996 results reflect an increase of 8.5 percent from 1995. The contribution of general insurance operating income to income before income taxes was 52.6 percent in 1997 compared to 55.0 percent in 1996 and 58.6 percent in 1995.

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 $15.98 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at December 31, 1997 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.

AIG maintains an allowance for estimated unrecoverable reinsurance and has been largely successful in its previous recovery efforts. At December 31, 1997, 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.

At December 31, 1997, the consolidated general reinsurance assets of $15.98 billion include reinsurance recoverables for paid losses and loss expenses of $2.02 billion and $12.23 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated. Any adjustments therefrom are reflected in income currently. It is AIG's belief that the ceded reserves at December 31, 1997 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

At December 31, 1997, general insurance reserves for losses and loss expenses (loss reserves) amounted to $33.40 billion, a decrease of $29.6 million or 0.1 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 $764.2 million or 3.7 percent to $21.2 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 December 31, 1997. 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 environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites 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 caselaw 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 December 31, 1997 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.

Management's Discussion and Analysis of
Financial Condition and Results of Operations (CONTINUED)

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at December 31, 1997, 1996 and 1995 was as follows:

(in millions)

	1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 875.9	$ 172.3	$ 744.8	$ 127.9	$ 686.0	$ 130.2
Losses and loss expenses incurred	238.4	68.3	392.5	102.7	197.7	20.5
Losses and loss expenses paid	(272.2)	(45.5)	(261.4)	(58.3)	(138.9)	(22.8)
Reserve for losses and loss expenses at end of year	$ 842.1	$ 195.1	$ 875.9)	$ 172.3	$ 744.8	$ 127.9
Environmental:						
Reserve for losses and loss expenses at beginning of year	$1,427.4	$ 570.6	$1,197.9	$ 379.3	$ 728.1	$ 200.1
Losses and loss expenses incurred	223.1	85.0	379.6	240.3	684.9	231.7
Losses and loss expenses paid	(183.4)	(63.4)	(150.1)	(49.0)	(215.1)	(52.5)
Reserve for losses and loss expenses at end of year	$1,467.1	$ 592.2	$1,427.4	$ 570.6	$1,197.9	$ 379.3
Combined:						
Reserve for losses and loss expenses at beginning of year	$2,303.3	$ 742.9	$1,942.7	$ 507.2	$1,414.1	$ 330.3
Losses and loss expenses incurred	461.5	153.3	772.1	343.0	882.6	252.2
Losses and loss expenses paid	(455.6)	(108.9)	(411.5)	(107.3)	(354.0)	(75.3)
Reserve for losses and loss expenses at end of year	$2,309.2	$ 787.3	$2,303.3	$ 742.9	$1,942.7	$ 507.2

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at December 31, 1997, 1996 and 1995 were estimated as follows:

(in thousands)

	1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net
Combined	$1,004,000	$393,900	$1,070,000	$436,500	$665,000	$218,000

A summary of asbestos and environmental claims count activity for the years ended December 31, 1997, 1996 and 1995 was as follows:

	1997			1996		
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	5,668	17,395	23,063	5,244	17,858	23,102
Claims during year:						
Opened	1,073	3,624	4,697	1,083	3,836	4,919
Settled	(169)	(644)	(813)	(117)	(466)	(583)
Dismissed or otherwise resolved	(422)	(2,953)	(3,375)	(542)	(3,833)	(4,375)
Claims at end of year	6,150	17,422	23,572	5,668	17,395	23,063

	1995		
	Asbestos	Environmental	Combined
Claims at beginning of year	5,947	16,223	22,170
Claims during year:			
Opened	1,026	5,045	6,071
Settled	(93)	(663)	(756)
Dismissed or otherwise resolved	(1,636)	(2,747)	(4,383)
Claims at end of year	5,244	17,858	23,102

The average cost per claim settled, dismissed or otherwise resolved for the years ended December 31, 1997, 1996 and 1995 was as follows:

	1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net
Asbestos	$460,600	$77,000	$396,700	$88,500	$80,300	$13,200
Environmental	51,000	17,600	34,900	11,400	63,100	15,400
Combined	108,800	26,000	83,000	21,600	68,900	14,700

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 for the years ended December 31, 1997, 1996 and 1995 were as follows:

	1997		1996		1995	
	Gross	Net	Gross	Net	Gross	Net

Involuntary survival ratios:						
Asbestos	3.8	4.6	5.1	4.6	5.5	4.2
Environmental	14.6	18.0	16.2	18.8	15.6	12.4
Combined	7.7	11.2	9.4	11.5	9.7	8.8

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, 1996 and 1995 were $15.4 million, $18.8 million and $23.5 million, respectively.

AIG is also required to participate in various involuntary pools (principally workers' compensation business) which provide insurance coverage for those not able to obtain such coverage in the voluntary markets. This participation is also recorded upon notification, as these amounts cannot reasonably be estimated. (See also Note 17 of Notes to Financial Statements.)

Life Insurance Operations

Life insurance operations for the twelve month periods ending December 31, 1997, 1996 and 1995 were as follows:

(in thousands)

	1997	1996	1995
Premium income:			
Domestic	$ 553,203	$ 535,579	$ 463,533
Foreign	9,372,436	8,442,667	7,574,617
Total	$ 9,925,639	$ 8,978,246	$ 8,038,150
Net investment income:			
Domestic	$ 838,931	$ 930,350	$ 846,345
Foreign	2,057,538	1,745,531	1,418,560
Total	$ 2,896,469	$ 2,675,881	$ 2,264,905
Operating income before realized capital gains:			
Domestic	$ 124,938	$ 100,487	$ 59,014
Foreign	1,425,359	1,188,473	998,888
Total	1,550,297	1,288,960	1,057,902
Realized capital gains	21,186	34,798	32,703
Operating income	$ 1,571,483	$ 1,323,758	$ 1,090,605
Life insurance in-force:			
Domestic	$ 59,516,720	$ 60,419,342	$ 54,272,118
Foreign	377,056,403	361,563,791	321,824,989
Total	$436,573,123	$421,983,133	$376,097,107

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 in 1997 represented a 10.6 percent increase from the prior year. This compares with an increase of 11.7 percent in 1996 over 1995. Foreign life operations produced 94.4 percent, 94.0 percent and 94.2 percent of the life premium income in 1997, 1996 and 1995, respectively. (See also Notes 1, 4 and 6 of Notes to Financial Statements.)

As previously discussed, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, 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 6.5 percentage points less than it would have been if translated utilizing exchange rates prevailing in 1996. (See also the discussion under "Capital Resources" herein.)

Life insurance net investment income increased 8.2 percent in 1997 compared to an increase of 18.1 percent in 1996. The slowing of the growth rate was impacted by the redemption of policy loans with respect to some large corporate owned life insurance policies (COLI) beginning in 1996 and continuing into 1997. Such redemptions had an insignificant impact on operating income, financial condition and liquidity. The growth in net investment income in 1997 and 1996 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 gains were $21.2 million in 1997, $34.8 million in 1996 and $32.7 million in 1995. These realized gains resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income in 1997 increased 18.7 percent to $1.57 billion compared to an increase of 21.4 percent in 1996. Excluding realized capital gains from life insurance operating income, the percent increases would be 20.3 percent and 21.8 percent in 1997 and 1996, respectively. The contribution of life insurance operating income to income before income taxes amounted to 33.4 percent in 1997 compared to 33.0 percent in 1996 and 31.5 percent in 1995.

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

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage by using yearly renewable term reinsurance. The life insurance operations have not entered into assumption reinsurance transactions or surplus relief transactions during the three year period ended December 31, 1997. (See also Note 5 of Notes to Financial Statements.)

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

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

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of 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. 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 twelve month periods ending December 31, 1997, 1996 and 1995 were as follows:

(in thousands)

	1997	1996	1995
Revenues:			
International Lease Finance Corp.	$ 1,856,763	$ 1,560,228	$ 1,378,353
AIG Financial Products Corp.*	452,052	369,194	289,020
AIG Trading Group Inc.*	561,784	288,551	317,207
Other	402,879	337,504	219,510
Total	$ 3,273,478	$ 2,555,477	$ 2,204,090
Operating income:			
International Lease Finance Corp.	$ 382,431	$ 306,853	$ 263,790
AIG Financial Products Corp.	240,970	189,157	140,245
AIG Trading Group Inc.	126,536	80,156	68,765
Other, including intercompany adjustments	(48,600)	(52,260)	(55,059)
Total	$ 701,337	$ 523,906	$ 417,741

* Represents net trading revenues.

Financial services operating income increased 33.9 percent in 1997 over 1996. This compares with an increase of 25.4 percent in 1996 over 1995.

Financial services operating income represented 14.9 percent of AIG's income before income taxes in 1997. This compares to 13.1 percent and 12.1 percent in 1996 and 1995, respectively.

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 1997 increased 19.0 percent from 1996 compared to a 13.2 percent increase during

1996 from 1995. The revenue growth in each year 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 1997, operating income increased 24.6 percent from 1996 and 16.3 percent during 1996 from 1995. The composite borrowing rates at December 31, 1997, 1996 and 1995 were 6.44 percent, 6.23 percent and 6.47 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 December 31, 1997, there were 297 aircraft subject to operating leases. Two other aircraft were committed for sale. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

Management's Discussion and Analysis of
Financial Condition and Results of Operations (CONTINUED)

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 1997 increased 22.4 percent from 1996 compared to a 27.7 percent increase during 1996 from 1995. During 1997, operating income increased 27.4 percent from 1996 and increased 34.9 percent during 1996 from 1995. 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 1997 increased 94.7 percent from 1996 compared to a 9.0 percent decrease during 1996 from 1995. During 1997, operating income increased 57.9 percent from 1996 and 16.6 percent during 1996 from 1995. A substantial portion of AIGTG's improvement during 1997 over 1996 was currency trading activity in volatile foreign exchange markets. As AIGTG is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein.)

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

Other Operations

In 1997, AIG's equity in income of minority-owned insurance operations was $113.6 million compared to $99.4 million in 1996 and $81.7 million in 1995. In 1997, the equity interest in insurance companies represented 2.4 percent of income before income taxes compared to 2.5 percent in 1996 and 2.4 percent in 1995.

Other realized capital losses amounted to $30.8 million, $11.8 million and $28.9 million in 1997, 1996 and 1995, respectively.

Minority interest represents minority shareholders' equity in income of certain consolidated subsidiaries. In 1997, minority interest amounted to $31.9 million. In 1996 and 1995, minority interest amounted to $43.2 million and $36.3 million, respectively.

Other income (deductions)-net includes AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In 1997, net deductions amounted to $96.7 million. In 1996 and 1995, net deductions amounted to $84.4 million and $91.2 million, respectively.

Income before income taxes amounted to $4.70 billion in 1997, $4.01 billion in 1996 and $3.47 billion in 1995.

In 1997, AIG recorded a provision for income taxes of $1.37 billion compared to the provisions of $1.12 billion and $955.5 million in 1996 and 1995, respectively. These provisions represent effective tax rates of 29.1 percent in 1997, 27.8 percent in 1996 and 27.6 percent in 1995. (See Note 3 of Notes to Financial Statements.)

Net income amounted to $3.33 billion in 1997, $2.90 billion in 1996 and $2.51 billion in 1995. The increases in net income over the three year period resulted from those factors described above.

Capital Resources

At December 31, 1997, AIG had total capital funds of $24.00 billion and total borrowings of $25.26 billion. At that date, $22.28 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Total borrowings and borrowings not guaranteed or matched at December 31, 1997 and 1996 were as follows:

(in thousands)

December 31,	1997	1996
GIAs -- AIGFP	$ 8,000,326	$ 5,723,228
Commercial Paper:		
Funding	307,997	1,018,510
ILFC (a)	2,208,167	2,739,388
AICCO	833,647	740,078
Universal Finance Company (UFC) (a)	25,096	--
Total	3,374,907	4,497,976
Medium Term Notes:		
ILFC (a)	2,896,865	2,551,485
AIG	248,225	140,000
Total	3,145,090	2,691,485
Notes and Bonds Payable:		
ILFC (a)	3,950,000	3,500,000
AIGFP	4,858,706	5,243,042
AIGTG	--	10,442
AIG: Lire bonds	159,067	159,067
Zero coupon notes	91,179	81,761
Total	9,058,952	8,994,312
Loans and Mortgages Payable:		
ILFC (a) (b)	903,320	1,007,836
SPC Credit Limited (SPC) (a)	538,988	398,837
AIG	239,062	206,840
Total	1,681,370	1,613,513
Total Borrowings	25,260,645	23,520,514
Borrowings not guaranteed by AIG	10,522,436	10,197,546
Matched GIA borrowings	8,000,326	5,723,228
Matched notes and bonds payable -- AIGFP	3,754,420	4,576,900
	22,277,182	20,497,674
Remaining borrowings of AIG	$ 2,983,463	$ 3,022,840

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

See also Note 9 of Notes to Financial Statements.

During 1997, AIGFP decreased the aggregate principal amount outstanding of its notes and bonds payable to $4.86 billion, a net decrease of $384.3 million and increased its net GIA borrowings by $2.28 billion. 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 and Notes 1, 8, 9 and 11 of Notes to Financial Statements.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC, A.I. Credit Corp. (AICCO) and UFC, a consumer finance subsidiary in Taiwan, issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's, ILFC's or UFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. From time to time, AIGFP may issue commercial paper, which AIG guarantees, to fund its operations. At December 31, 1997, AIGFP had no commercial paper outstanding. (See also the discussion under "Derivatives" herein and Note 9 of Notes to Financial Statements.)

AIG and Funding have entered into two syndicated revolving credit facilities (the Facilities) aggregating $1 billion. The Facilities consist of a $500 million 364 day revolving credit facility and a $500 million five year revolving credit facility. The Facilities can be used for general corporate purposes and also provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding as of December 31, 1997.

At December 31, 1997, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to $6.85 billion, a net increase of $795.4 million, and recorded a net decline in its capital lease obligations of $92.6 million and a net decrease in its commercial paper of $531.2 million. At December 31, 1997, ILFC had $610 million in aggregate principal amount of debt securities registered for issuance from time to time. In February 1998, ILFC reduced this registered amount to $230 million through the sale of debt securities amounting to $380 million aggregate principal amount. Also, in February 1998, ILFC registered $2.29 billion in aggregate principal amount of debt securities for issuance from time to time. At that time, the aggregate principal amount of registered debt available for issuance was $2.52 billion. The proceeds of ILFC's debt financing are primarily used to purchase flight equipment, including progress payments during the construction phase. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During 1997, AIG issued $108.2 million principal amount of Medium Term Notes, Series E, including $100 million principal amount of 2 1/4% Cash Exchangeable Equity-Linked Notes Due July 30, 2004. These notes accrue interest at the rate of 2.25 percent and the total return on these notes is linked to the appreciation in market value of AIG's common stock. The notes may be redeemed, at the option of AIG, as a whole but not in part, at any time on or after July 30, 2000. In conjunction with the issuance of these notes, AIG entered into a series of swap transactions which effectively converted its interest expense to a fixed rate of 5.87 percent and transferred the equity appreciation exposure to a third party. The proceeds of these notes were used for general corporate purposes.

No notes previously issued by AIG matured during 1997. At December 31, 1997 AIG had $538.8 million in aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds increased $1.96 billion during 1997. Unrealized appreciation of investments, net of taxes decreased $28.1 million. During 1997, the cumulative translation adjustment loss, net of taxes, increased $684.8 million. The changes from year to year with respect to the unrealized appreciation of investments, net of taxes and the cumulative translation adjustment loss, net of taxes were primarily impacted by 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 $2.50 billion, resulting from net income less dividends.

During 1997, AIG repurchased 5.7 million shares of its common stock in the open market at a cost of $502.0 million. Shares repurchased prior to July 25, 1997, have been adjusted for the three for two stock split in the form of a 50 percent common stock dividend. AIG intends to continue to buy its common shares in the open market to satisfy its obligations under various employee benefit plans 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 December 31, 1997, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein and Note 10 of Notes to Financial Statements.)

The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At December 31, 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.

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

Liquidity

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

At December 31, 1997, AIG's consolidated invested assets included approximately $3.42 billion of cash and short-term investments. Consolidated net cash provided from operating activities in 1997 amounted to approximately $3.04 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated over $6 billion in pre-tax cash flow during 1997. 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 $4.7 billion in investment income cash flow during 1997. 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 $3.0 billion provided the insurance operations with a significant amount of liquidity during 1997. 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 $16 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase nearly $19 billion of fixed income securities and marketable equity securities during 1997.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued and real estate, at December 31, 1997 and 1996:

(dollars in thousands)

	December 31, 1997		December 31, 1996	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
General insurance	$ 31,844,084	26.0%	$ 28,786,140	26.5%
Life insurance	41,046,969	33.5	38,491,870	35.4
Financial services	48,899,127	39.9	40,938,871	37.7
Other	661,701	0.6	401,248	0.4
Total	$122,451,881	100.0%	$108,618,129	100.0%

Insurance Invested Assets

The following tables summarize the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at December 31, 1997 and 1996:

(dollars in thousands)

December 31, 1997	General	Life	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution 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.

(dollars in thousands)

December 31, 1996	General	Life	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution Foreign
Fixed Maturities:						
Available for sale, at market value (a)	$ 9,713,937	$26,058,027	$35,771,964	53.2%	34.6%	65.4%
Held to maturity, at amortized cost (b)	12,736,225	--	12,736,225	18.9	100.0	--
Equity securities, at market value (c)	3,265,756	2,608,309	5,874,065	8.7	33.9	66.1
Mortgage loans on real estate, policy and collateral loans	50,578	6,224,878	6,275,456	9.3	43.1	56.9
Short-term investments, including time deposits, and cash	605,363	1,002,060	1,607,423	2.4	19.3	80.7
Real estate	409,808	843,933	1,253,741	1.9	18.2	81.8
Investment income due and accrued	493,338	697,891	1,191,229	1.8	44.4	55.6
Other invested assets	1,511,135	1,056,772	2,567,907	3.8	51.6	48.4
Total	$28,786,140	$38,491,870	$67,278,010	100.0%	47.9%	52.1%

(a) Includes $364,069 of bonds trading securities, at market value.
(b) Includes $477,247 of preferred stock, at amortized cost.
(c) Includes $46,732 of preferred stock, at market value.

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

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

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

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

At December 31, 1997, approximately 53.2 percent of the fixed maturities investments were domestic securities. Approximately 41 percent of such domestic securities were rated AAA. Approximately eight percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At December 31, 1997, approximately 28 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 December 31, 1997, 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 59 percent of the CMOs were backed by various U.S. government agencies. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the accelerated prepayments of the underlying mortgages. There were no interest only or principal only CMOs at December 31, 1997.

Any fixed income security may be subject to downgrade for a variety of reasons subsequent to any balance sheet date. There have been no significant downgrades as of March 1, 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 8.5 percent of AIG's insurance invested assets at December 31, 1997. AIG's insurance operations' holdings of real estate mortgages amounted to $2.51 billion of which 36.1 percent was domestic. At December 31, 1997, no domestic mortgages and only a nominal amount of foreign mortgages were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At December 31, 1997, AIG's insurance holdings of collateral loans amounted to $1.02 billion, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans decreased from $3.00 billion at December 31, 1996 to $2.67 billion at December 31, 1997. Nearly all of this decrease relates to the redemption of COLI 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. 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:

(in millions)

Market Risk	General Insurance	Life Insurance
Interest rate	$ 235.6	$ 779.3
Currency	25.9	84.9
Equity	354.5	120.1

VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

Financial Services Invested Assets

The following table is a summary of the composition of AIG's financial services invested assets at December 31, 1997 and 1996. (See also the discussions under "Operational Review: Financial Services Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in thousands)

	1997		1996	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	$14,438,074	29.5%	$13,808,660	33.7%
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,422,290	15.2	6,906,012	16.9
Securities available for sale, at market value	9,145,317	18.7	9,785,909	23.9
Trading securities, at market value	3,974,561	8.1	2,357,812	5.7
Securities purchased under agreements to resell, at contract value	4,551,191	9.3	1,642,591	4.0
Trading assets	6,715,486	13.8	3,793,433	9.3
Spot commodities, at market value	459,517	0.9	204,705	0.5
Other, including short-term investments	2,192,691	4.5	2,439,749	6.0
Total	$48,899,127	100.0%	$40,938,871	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 1997, ILFC acquired flight equipment costing $3.44 billion.

At December 31, 1997, ILFC had committed to purchase or had secured positions for 328 aircraft deliverable from 1998 through 2006 at an estimated aggregate purchase price of $17.7 billion. As of March 9, 1998, ILFC has entered into leases, letters of intent to lease or is in various stages of negotiation for all of the aircraft to be delivered in 1998 and 84 of 268 aircraft to be delivered subsequent to 1998. ILFC will be required to find customers for any aircraft presently on order and any aircraft to be ordered, and it must arrange financing for portions of the purchase price of such equipment. In a rising interest rate environment, ILFC negotiates higher lease rates on any new contracts. ILFC has been successful to date both in placing its new aircraft on lease or under sales contract and obtaining adequate financing.

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 December 31, 1997, 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 $444.0 million of these securities. There were no securities deemed below investment grade at December 31, 1997. There have been no significant downgrades through March 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 commodity prices. AIGTG supports its trading activities largely through trading liabilities, unrealized losses on swaps, short-term borrowings, securities sold under agreements to repurchase and securities and commodities sold but not yet purchased. (See also the discussions under "Capital Resources" and "Derivatives" herein.)

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at December 31, 1997 were as follows:

(in thousands)

	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale, at market value (a)	$ 292,274	$ 292,201
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions (b) (c)	7,422,290	5,979,571
Trading assets	8,429,103	5,114,498
Spot commodities, at market value	--	59,712
Trading liabilities	--	4,323,000
Securities and spot commodities sold but not yet purchased, at market value	344,783	--

(a) See also Note 8 (e) of Notes to Financial Statements.
(b) These amounts are also presented as the respective balance sheet amounts.
(c) At December 31, 1997, AIGTG's replacement values with respect to interest rate and currency swaps were $610.4 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 December 31, 1997, the unrealized gains and losses remaining after the benefit of the offsets were $6.6 million and $6.5 million, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AIGFP and AIGTG are both exposed to the risk of loss of fair value. 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.

AIGFPand 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 December 31, 1997. 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 December 31, 1997 under the most adverse scenario as mentioned above:

(in millions) Market Risk	
Interest rate	$ 11.4
Currency	30.0
Equity	5.9

The following table presents the one day exposure to potential loss in fair value of each component of AIGTG's market risk as of December 31, 1997 under the most adverse scenario as discussed above:

(in millions) Market Risk	
Interest rate	$ 6.2
Currency	23.3
Commodity	1.3

Derivatives

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

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

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

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

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

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

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

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

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

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

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

Management's Discussion and Analysis of
Financial Condition and Results of Operations (CONTINUED)

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at December 31, 1997 and December 31, 1996:

(in thousands)

	Remaining Life One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total 1997	Total 1996
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$ 57,623,000	$ 85,484,000	$47,420,000	$ 9,964,000	$200,491,000	$165,771,800
Currency swaps	8,575,000	28,686,000	12,527,000	4,960,000	54,748,000	39,182,900
Swaptions and equity swaps	857,000	4,734,000	4,129,000	1,497,000	11,217,000	5,721,300
Total	$ 67,055,000	$118,904,000	$64,076,000	$16,421,000	$266,456,000	$210,676,000
Futures and forward contracts:						
Exchange traded futures contracts contractual amount	$ 4,411,000	--	--	--	$ 4,411,000	$ 6,867,300
Over the counter forward contracts contractual amount	$ 13,271,000	--	--	--	$ 13,271,000	$ 5,952,200

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1997 and December 31, 1996, 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 1997	Total 1996
Counterparty credit quality:				
AAA	$2,326,502	$ --	$2,326,502	$1,732,315
AA	2,273,532	37,572	2,311,104	2,021,878
A	1,153,007	12,403	1,165,410	1,461,063
BBB	608,448	47	608,495	1,150,420
Below investment grade	289,563	--	289,563	26,293
Total	$6,651,052	$50,022	$6,701,074	$6,391,969

At December 31, 1997 and December 31, 1996, the counterparty breakdown by industry 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 1997	Total 1996
Non-U.S. banks	$2,213,366	$49,939	$2,263,305	$2,330,481
Insured municipalities	757,514	--	757,514	656,373
U.S. industrials	513,958	83	514,041	894,942
Governmental	677,230	--	677,230	894,284
Non-U.S. financial service companies	64,787	--	64,787	34,383
Non-U.S. industrials	1,034,792	--	1,034,792	497,839
Special purpose	163,109	--	163,109	121,137
U.S. banks	584,915	--	584,915	251,641
U.S. financial service companies	433,710	--	433,710	534,965
Supranationals	207,671	--	207,671	175,924
Total	$6,651,052	$50,022	$6,701,074	$6,391,969

The following tables provide the contractual and notional amounts of AIGTG's derivatives portfolio at December 31, 1997 and December 31, 1996. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the December 31, 1997 balances based upon the expected timing of the future cash flows.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at December 31, 1997 and December 31, 1996. These values do not represent the credit risk to AIGTG.

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

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at December 31, 1997 and December 31, 1996:

(in thousands)

	Remaining Life					
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total 1997	Total 1996
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 21,613,406	$ 2,931,347	$ 34,545	$ --	$ 24,579,298	$ 17,004,692
Forwards	$253,917,460	$12,347,787	$1,694,038	$ --	$267,959,285	$216,775,766
Over the counter purchased options	$ 39,756,245	$17,466,110	$2,932,703	$849,059	$ 61,004,117	$ 27,377,217
Over the counter sold options (a)	$ 48,398,996	$ 9,595,654	$ 964,050	$134,771	$ 59,093,471	$ 31,049,529
Notional amount:						
Interest rate swaps and forward rate agreements	$ 60,017,945	$14,798,198	$2,376,472	$310,035	$ 77,502,650	$ 66,306,480
Currency swaps	628,542	5,134,893	725,898	--	6,489,333	5,853,194
Total	$ 60,646,487	$19,933,091	$3,102,370	$310,035	$ 83,991,983	$ 72,159,674
Credit exposure:						
Futures, forwards and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	$ 9,330,966	$ 1,364,417	$ 308,435	$ 15,899	$ 11,019,717	$ 7,489,766
Master netting arrangements	(5,277,129)	(442,284)	(70,963)	(7,935)	(5,798,311)	(3,872,291)
Collateral	(135,303)	(73,991)	(15,384)	--	(224,678)	(149,347)
Net replacement value (b)	$ 3,918,534	$ 848,142	$ 222,088	$ 7,964	$ 4,996,728	$ 3,468,128

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

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

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1997 and December 31, 1996, 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	
	1997	1996
Counterparty credit quality:		
AAA	$ 752,741	$ 447,236
AA	2,503,289	1,075,713
A	1,023,650	1,133,332
BBB	342,695	518,485
Below investment grade	98,425	115,810
Not externally rated, including exchange traded futures and options*	275,928	177,552
Total	$4,996,728	$3,468,128
Counterparty breakdown by industry:		
Non-U.S. banks	$2,685,998	$1,269,399
U.S. industrials	163,484	761,634
Governmental	135,269	121,278
Non-U.S. financial service companies	260,412	186,476
Non-U.S. industrials	167,835	192,669
U.S. banks	560,388	309,154
U.S. financial service companies	747,414	449,966
Exchanges*	275,928	177,552
Total	$4,996,728	$3,468,128

* 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 June 1996, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (FASB 125). This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement provides consistent standards for distinguishing transfer of financial assets that are sales from transfers that are secured borrowings. FASB 125 was effective January 1, 1997.

In December 1996, FASB issued Statement of Financial Accounting Standards No. 127 "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" (FASB 127). FASB 127 delays the implementation of certain provisions of FASB 125 for one year. AIG has adopted all requirements of FASB 125 herein.

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 has adopted all requirements of FASB 128 herein and all prior period information has been restated.

In February 1997, the Securities and Exchange Commission (SEC) issued Financial Reporting Release No. 48 "Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments"(FRR No. 48).

FRR No. 48 amends rules and forms for registrants and requires clarification and expansion of existing disclosures for derivative financial instruments, other financial instruments and derivative commodity instruments, as defined therein. The amendments require enhanced disclosure with respect to these derivative instruments in the footnotes to the financial statements. Additionally, the amendments expand existing disclosure requirements to include quantitative and qualitative discussions with respect to market risk inherent in market risk sensitive instruments such as equity and fixed maturity securities, as well as these derivative instruments. These amendments are designed to provide additional information about market risk sensitive instruments which investors can use to better understand and evaluate market risk exposures of registrants, including AIG. FRR No. 48 has been adopted herein.

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

FASB 130 establishes standards for reporting comprehensive income and its components in a full set of general purpose financial statements. FASB 130 is effective for AIG as of January 1, 1998. FASB 130 will have 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 will be consolidated as a component of general insurance operations.

ITEM 8. Financial Statements and Supplementary Data

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

Report of Independent Accountants

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

We have audited the consolidated financial statements and the financial statement schedules of American International Group, Inc. and subsidiaries listed in the index on page 36 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American International Group, Inc. and subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

New York, New York
February 10, 1998.

Consolidated Balance Sheet American International Group, Inc. and Subsidiaries

(in thousands)

December 31,	1997	1996
Assets:		
Investments and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 1997-$36,568,360; 1996-$34,243,127)	$ 38,077,792	$ 35,524,932
Bonds held to maturity, at amortized cost (market value: 1997-$13,365,703; 1996-$12,865,357)	12,530,315	12,258,978
Bonds trading securities, at market value (cost: 1997-$699,614; 1996-$357,023)	718,548	364,069
Preferred stocks, at amortized cost (market value: 1997-$530,705; 1996-$591,091)	239,331	477,247
Equity securities:		
Common stocks (cost: 1997-$4,625,433; 1996-$4,993,799)	5,209,274	5,989,572
Non-redeemable preferred stocks (cost: 1997-$138,412; 1996-$64,705)	138,745	76,068
Mortgage loans on real estate, policy and collateral loans-net	7,919,764	7,876,820
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1997-$1,657,313; 1996-$1,465,031)	14,438,074	13,808,660
Securities available for sale, at market value (cost: 1997-$9,145,244; 1996-$9,775,705)	9,145,317	9,785,909
Trading securities, at market value	3,974,561	2,357,812
Spot commodities, at market value	459,517	204,705
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,422,290	6,906,012
Trading assets	6,715,486	3,793,433
Securities purchased under agreements to resell, at contract value	4,551,191	1,642,591
Other invested assets	4,681,423	2,915,302
Short-term investments, at cost (approximates market value)	3,332,542	2,008,123
Cash	86,917	58,740
Total investments and cash	119,641,087	106,048,973
Investment income due and accrued	1,368,404	1,198,348
Premiums and insurance balances receivable-net	10,282,987	9,617,061
Reinsurance assets	16,110,521	16,526,566
Deferred policy acquisition costs	6,592,506	6,471,357
Investments in partially-owned companies	1,121,173	951,352
Real estate and other fixed assets, net of accumulated depreciation (1997-$1,512,617; 1996-$1,390,225)	2,342,187	2,122,762
Separate and variable accounts	3,993,971	3,271,716
Other assets	2,517,851	2,222,867
Total assets	$163,970,687	$148,431,002

See Accompanying Notes to Financial Statements.

Consolidated Balance Sheet (CONTINUED)

American International Group, Inc. and Subsidiaries

(in thousands, except share amounts)

December 31,	1997	1996
Liabilities:		
Reserve for losses and loss expenses	$ 33,400,160	$ 33,429,807
Reserve for unearned premiums	8,739,006	7,598,928
Future policy benefits for life and accident and health insurance contracts	24,502,005	24,002,860
Policyholders' contract deposits	10,323,112	9,803,409
Other policyholders' funds	2,352,514	2,219,907
Reserve for commissions, expenses and taxes	1,739,945	1,511,122
Insurance balances payable	1,702,578	1,832,649
Funds held by companies under reinsurance treaties	336,585	383,306
Income taxes payable:		
Current	585,375	201,978
Deferred	470,706	586,703
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	8,000,326	5,723,228
Securities sold under agreements to repurchase, at contract value	2,706,310	3,039,423
Trading liabilities	5,366,421	3,313,508
Securities and spot commodities sold but not yet purchased, at market value	5,171,680	1,568,542
Unrealized loss on interest rate and currency swaps, options and forward transactions	5,979,571	5,414,433
Deposits due to banks and other depositors	972,423	1,206,374
Commercial paper	2,208,167	2,739,388
Notes, bonds and loans payable	12,608,891	12,312,805
Commercial paper	1,166,740	1,758,588
Notes, bonds, loans and mortgages payable	1,276,521	986,505
Separate and variable accounts	3,993,971	3,271,716
Other liabilities	5,966,553	3,081,599
Total liabilities	139,569,560	125,986,778
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 1997-759,121,505; 1996-506,084,172	1,897,804	1,265,210
Additional paid-in capital	105,689	127,415
Unrealized appreciation of investments, net of taxes	1,350,182	1,378,318
Cumulative translation adjustments, net of taxes	(1,178,041)	(493,218)
Retained earnings	22,920,991	20,420,881
Treasury stock; 1997-59,603,224; 1996-36,643,026 shares of common stock (including 41,726,541 and 27,817,986 shares, respectively, held by subsidiaries)	(1,095,498)	(654,382)
Total capital funds	24,001,127	22,044,224
Total liabilities and capital funds	$163,970,687	$148,431,002

See Accompanying Notes to Financial Statements.

Consolidated Statement of Income

American International Group, Inc. and Subsidiaries

(in thousands, except per share amounts)

Years Ended December 31,	1997	1996	1995
General insurance operations:			
Net premiums written	$13,407,529	$12,691,679	$11,893,022
Change in unearned premium reserve	(986,489)	(836,864)	(487,291)
Net premiums earned	12,421,040	11,854,815	11,405,731
Net investment income	1,853,523	1,690,798	1,547,572
Realized capital gains	128,175	64,985	68,077
	14,402,738	13,610,598	13,021,380
Losses incurred	7,801,358	7,278,815	7,071,238
Loss expenses incurred	1,554,861	1,717,616	1,588,597
Underwriting expenses (principally policy acquisition costs)	2,574,653	2,408,600	2,329,259
	11,930,872	11,405,031	10,989,094
Operating income	2,471,866	2,205,567	2,032,286
Life insurance operations:			
Premium income	9,925,639	8,978,246	8,038,150
Net investment income	2,896,469	2,675,881	2,264,905
Realized capital gains	21,186	34,798	32,703
	12,843,294	11,688,925	10,335,758
Death and other benefits	4,052,180	3,733,523	3,348,058
Increase in future policy benefits	4,759,018	4,370,055	3,739,976
Acquisition and insurance expenses	2,460,613	2,261,589	2,157,119
	11,271,811	10,365,167	9,245,153
Operating income	1,571,483	1,323,758	1,090,605
Financial services operating income	701,337	523,906	417,741
Equity in income of minority-owned insurance operations	113,636	99,359	81,722
Other realized capital losses	(30,846)	(11,792)	(28,946)
Minority interest	(31,926)	(43,226)	(36,317)
Other income (deductions)-net	(96,652)	(84,350)	(91,208)
Income before income taxes	4,698,898	4,013,222	3,465,883
Income taxes (benefits):			
Current	1,273,439	1,070,868	1,025,774
Deferred	93,124	45,097	(70,274)
	1,366,563	1,115,965	955,500
Net income	$ 3,332,335	$ 2,897,257	$ 2,510,383
Earnings per common share:			
Basic	$4.75	$4.10	$3.53
Diluted	4.73	4.08	3.52
Average shares outstanding:			
Basic	701,930	706,568	711,033
Diluted	704,984	709,316	713,512

See Accompanying Notes to Financial Statements.

Consolidated Statement of Capital Funds

American International Group, Inc. and Subsidiaries

(in thousands, except per share amounts)

Years Ended December 31,	1997	1996	1995
Common stock:			
Balance at beginning of year	$ 1,265,210	$ 1,265,210	$ 843,477
Stock split effected as dividend	632,594	--	421,733
Balance at end of year	1,897,804	1,265,210	1,265,210
Additional paid-in capital:			
Balance at beginning of year	127,415	131,828	565,410
Excess of cost over proceeds of common stock issued under stock option and stock purchase plans	(29,659)	(15,439)	(15,097)
Stock split effected as dividend	--	--	(421,733)
Other	7,933	11,026	3,248
Balance at end of year	105,689	127,415	131,828
Unrealized appreciation (depreciation) of investments, net of taxes:			
Balance at beginning of year	1,378,318	1,395,064	184,556
Changes during year	(116,981)	8,872	1,809,365
Deferred income tax benefit (expense) on changes	88,845	(25,618)	(598,857)
Balance at end of year	1,350,182	1,378,318	1,395,064
Cumulative translation adjustments, net of taxes:			
Balance at beginning of year	(493,218)	(456,072)	(288,074)
Changes during year	(753,808)	(66,993)	(156,523)
Applicable income tax benefit (expense) on changes	68,985	29,847	(11,475)
Balance at end of year	(1,178,041)	(493,218)	(456,072)
Retained earnings:			
Balance at beginning of year	20,420,881	17,697,739	15,340,928
Net income	3,332,335	2,897,257	2,510,383
Stock dividends to shareholders	(632,594)	--	--
Cash dividends to shareholders:			
Common ($.28, $.25 and $.21 per share, respectively)	(199,631)	(174,115)	(153,572)
Balance at end of year	22,920,991	20,420,881	17,697,739
Treasury stock, at cost:			
Balance at beginning of year	(654,382)	(206,666)	(224,636)
Cost of shares acquired during year	(507,707)	(493,872)	(17,646)
Issued under stock option and stock purchase plans	66,227	38,452	35,616
Other	364	7,704	--
Balance at end of year	(1,095,498)	(654,382)	(206,666)
Total capital funds at end of year	$24,001,127	$22,044,224	$19,827,103

See Accompanying Notes to Financial Statements.

Consolidated Statement of Cash Flows

American International Group, Inc. and Subsidiaries

(in thousands)

Years Ended December 31,	1997	1996	1995
Summary:			
Net cash provided by operating activities	$ 3,034,988	$ 9,574,907	$ 6,693,625
Net cash used in investing activities	(4,855,533)	(14,455,657)	(11,218,986)
Net cash provided by financing activities	1,848,722	4,851,119	4,537,495
Change in cash	28,177	(29,631)	12,134
Cash at beginning of year	58,740	88,371	76,237
Cash at end of year	$ 86,917	$ 58,740	$ 88,371
Cash flows from operating activities:			
Net income	$ 3,332,335	$ 2,897,257	$ 2,510,383
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	1,767,124	4,130,962	5,182,203
Premiums and insurance balances receivable and payable-net	(795,997)	(260,630)	(184,120)
Reinsurance assets	416,045	351,589	(588,548)
Deferred policy acquisition costs	(121,149)	(703,784)	(635,328)
Investment income due and accrued	(170,056)	14,600	(284,997)
Funds held under reinsurance treaties	(46,721)	38,614	(38,161)
Other policyholders' funds	132,607	127,742	140,807
Current and deferred income taxes-net	476,521	(78,038)	(165,730)
Reserve for commissions, expenses and taxes	228,823	253,876	(61,937)
Other assets and liabilities-net	467,683	(394,168)	511,489
Trading assets and liabilities-net	(869,140)	(56,439)	97,985
Trading securities, at market value	(1,616,749)	283,624	(157,799)
Spot commodities, at market value	(254,812)	178,669	533,459
Net unrealized gain on interest rate and currency swaps, options and forward transactions	48,860	(130,914)	(369,372)
Securities purchased under agreements to resell	(2,908,600)	379,465	(812,653)
Securities sold under agreements to repurchase	(333,113)	1,659,551	37,808
Securities and spot commodities sold but not yet purchased, at market value	3,603,138	364,156	642,399
Realized capital gains	(118,515)	(87,992)	(71,834)
Equity in income of partially-owned companies and other invested assets	(157,408)	(152,946)	(119,116)
Depreciation expenses, principally flight equipment	872,905	805,581	734,560
Change in cumulative translation adjustments	(753,807)	(66,993)	(156,523)
Other-net	(164,986)	21,125	(51,350)
Total adjustments	(297,347)	6,677,650	4,183,242
Net cash provided by operating activities	$ 3,034,988	$ 9,574,907	$ 6,693,625

See Accompanying Notes to Financial Statements.

Consolidated Statement of Cash Flows (CONTINUED)

American International Group, Inc. and Subsidiaries

(in thousands)

Years Ended December 31,	1997	1996	1995
Cash flows from investing activities:			
Cost of fixed maturities, at amortized cost matured or redeemed	$ 1,225,643	$ 1,626,925	$ 1,111,864
Cost of bonds, at market sold	9,308,031	9,514,381	7,633,674
Cost of bonds, at market matured or redeemed	3,775,047	2,480,629	2,695,319
Cost of equity securities sold	2,261,655	2,758,264	2,517,697
Realized capital gains	118,515	87,992	71,834
Purchases of fixed maturities	(16,921,756)	(19,511,037)	(16,947,508)
Purchases of equity securities	(1,915,806)	(3,218,375)	(2,588,994)
Mortgage, policy and collateral loans granted	(2,242,980)	(3,276,378)	(3,488,856)
Repayments of mortgage, policy and collateral loans	2,200,035	3,260,090	902,378
Sales of securities available for sale	4,310,088	2,061,776	1,896,109
Maturities of securities available for sale	3,232,530	1,603,215	1,183,742
Purchases of securities available for sale	(6,915,594)	(9,530,755)	(3,210,125)
Sales of flight equipment	2,230,586	1,362,632	1,158,151
Purchases of flight equipment	(3,435,274)	(3,254,344)	(3,279,356)
Net additions to real estate and other fixed assets	(517,056)	(581,221)	(340,563)
Sales or distributions of other invested assets	1,274,229	1,197,620	294,855
Investments in other invested assets	(1,478,658)	(1,262,910)	(970,580)
Change in short-term investments	(1,324,419)	264,405	194,925
Investments in partially-owned companies	(40,349)	(38,566)	(53,552)
Net cash used in investing activities	$ (4,855,533)	$(14,455,657)	$(11,218,986)
Cash flows from financing activities:			
Change in policyholders' contract deposits	$ 1,014,703	$ 222,426	$ 3,093,557
Change in deposits due to banks and other depositors	(233,951)	248,933	301,468
Change in commercial paper	(1,123,069)	1,331,341	(622,924)
Proceeds from notes, bonds, loans and mortgages payable	7,604,295	6,150,471	6,115,546
Repayments on notes, bonds, loans and mortgages payable	(7,015,646)	(2,775,482)	(4,290,938)
Liquidation of zero coupon notes payable	(12,235)	--	--
Proceeds from guaranteed investment agreements	4,930,022	3,583,158	2,940,563
Maturities of guaranteed investment agreements	(2,652,924)	(3,283,485)	(3,052,326)
Proceeds from subsidiary company preferred stock issued	--	(131)	197,144
Proceeds from common stock issued	36,568	23,013	20,519
Cash dividends to shareholders	(199,631)	(174,115)	(153,572)
Acquisition of treasury stock	(507,707)	(493,872)	(17,646)
Other-net	8,297	18,862	6,104
Net cash provided by financing activities	$ 1,848,722	$ 4,851,119	$ 4,537,495
Supplementary information:			
Taxes paid	$ 807,800	$ 1,068,500	$ 1,065,700
Interest paid	$ 1,733,900	$ 1,594,700	$ 1,318,700

See Accompanying Notes to Financial Statements.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(a) Principles of Consolidation: The consolidated financial statements include the accounts of American International Group, Inc. and all significant subsidiaries (AIG). Some of AIG's foreign subsidiaries report on a fiscal year ending November 30. All material intercompany accounts and transactions have been eliminated.

(b) Basis of Presentation: The accompanying financial statements have been prepared on the basis of generally accepted accounting principles (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain accounts have been reclassified in the 1996 and 1995 financial statements to conform to their 1997 presentation.

General Insurance Operations: AIG's general insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance. One or more of these companies is licensed to write substantially all of these lines in all states of the United States and in more than 100 foreign countries. Premiums are earned primarily on a pro rata basis over the term of the related coverage. The reserve for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

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

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

Life Insurance Operations: AIG's life insurance subsidiaries offer a wide range of traditional insurance and financial and investment products. One or more of these subsidiaries is licensed to write life insurance in all states of the United States and in over 70 foreign countries. Traditional products consist of individual and group life, annuity, and accident and health policies. Financial and investment products consist of single premium annuity, variable annuities, guaranteed investment contracts and universal life. Premiums for traditional life insurance products are generally recognized as revenues over the premium paying period of the related policies. Benefits and expenses are provided against such revenues to recognize profits over the estimated life of the policies. Revenues for universal life and investment-type products consist of policy charges for the cost of insurance, administration, and surrenders during the period. Expenses include interest credited to policy account balances and benefit payments made in excess of policy account balances. Investment income reflects certain minor amounts of realized capital gains where the gains are deemed to be an inherent element in pricing certain life products in some foreign countries.

Policy acquisition costs for traditional life insurance products are generally deferred and amortized over the premium paying period of the policy. Deferred policy acquisition costs and policy initiation costs related to universal life and investment-type products are amortized in relation to expected gross profits over the life of the policies. (See Note 4.)

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

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

AIG engages in market making and trading activities, as principal, in foreign exchange, interest rates and precious and base metals. AIG owns inventories in the commodities in which it trades and may reduce the exposure to market risk through the use of swaps, forwards, futures and option contracts.

AIG, as lessor, leases flight equipment principally under operating leases. Accordingly, income is reported over the life of the lease as rentals become receivable under the provisions of the lease or, in the case of leases with varying payments, under the straight-line method over the noncancelable term of the lease. In certain cases, leases provide for additional amounts contingent on usage. AIG is also a remarketer of flight equipment for its own account and for airlines and financial institutions. AIG's revenues from such operations consist of net gains on sales of flight equipment and commissions.

(c) Investments in Fixed Maturities and Equity Securities: Bonds and preferred stocks held to maturity, both of which are principally owned by the insurance subsidiaries, are carried at amortized cost where AIG has the ability and positive intent to hold these securities until maturity. Where AIG may not have the positive intent to hold these securities until maturity, those bonds are considered to be available for sale and carried at current market values. Interest income with respect to fixed maturity securities is accrued currently.

Included in the bonds available for sale are collateralized mortgage obligations (CMOs). Premiums and discounts arising from the purchase of CMOs are treated as yield adjustments over their estimated life. Bond trading securities are carried at current market values, as it is AIG's intention to sell these securities in the near term. Common and non-redeemable

1. Summary of Significant Accounting Policies (continued)

preferred stocks are carried at current market values. Dividend income is generally recognized when payable.

Unrealized gains and losses from investments in equity securities and fixed maturities available for sale are reflected in capital funds currently, net of any related deferred income taxes. Unrealized gains and losses from investments in trading securities are reflected in income currently.

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

(d) Mortgage Loans on Real Estate, Policy and Collateral Loans--net: Mortgage loans on real estate, policy loans and collateral loans are carried at unpaid principal balances. Interest income on such loans is accrued currently.

Impairment of mortgage loans on real estate and collateral loans is generally measured based on the present value of expected future cash flows discounted at the loan's effective interest rate subject to the fair value of underlying collateral. Interest income on such loans is recognized as cash is received.

(e) Flight Equipment: Flight equipment is stated at cost. Major additions and modifications are capitalized. Normal maintenance and repairs, airframe and engine overhauls and compliance with return conditions of flight equipment on lease are provided by and paid for by the lessee. Under the provisions of most leases for certain airframe and engine overhauls, the lessee is reimbursed for costs incurred up to but not exceeding contingent rentals paid to AIG by the lessee. AIG provides a charge to income for such reimbursements based upon the expected reimbursements during the life of the lease. Depreciation and amortization are computed on the straight-line basis to a residual value of approximately 15 percent over the estimated useful lives of the related assets but not exceeding 25 years. This caption also includes deposits for aircraft to be purchased.

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

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

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

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

(i) Unrealized Gain and Unrealized Loss on Interest Rate and Currency Swaps, Options and Forward Transactions: Swaps, options and forward transactions are accounted for as contractual commitments recorded on a trade date basis and are carried at current market values or estimated fair values when market values are not available. Unrealized gains and losses are reflected in income currently. Estimated fair values are based on the use of valuation models that utilize, among other things, current interest, foreign exchange and volatility rates. These valuations represent an assessment of the present values of expected future cash flows of these transactions and may include reserves for market risk as deemed appropriate. The portfolio's discounted cash flows are evaluated with reference to current market conditions, maturities within the portfolio and other relevant factors. Based upon this evaluation, it is determined what offsetting transactions, if any, are necessary to reduce the market risk of the portfolio. AIG manages its market risk with a variety of transactions, including swaps, trading securities, futures contracts and other transactions as appropriate. Because of the limited liquidity of some of these instruments, the recorded values of these transactions may be different than the values that might be realized if AIG were to sell or close out the transactions prior to maturity. AIG believes that such differences are not significant to the results of operations, financial condition or liquidity.

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

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

1. Summary of Significant Accounting Policies (continued)

the use of valuation models that utilize, among other things, current interest or commodity rates and foreign exchange and volatility rates, as applicable.

(k) Securities Purchased (Sold) Under Agreements to Resell (Repurchase), at contract value: Purchases of securities under agreements to resell and sales of securities under agreements to repurchase are accounted for as collateralized transactions and are recorded at their contracted resale or repurchase amounts, plus accrued interest. Generally, it is AIG's policy to take possession of or obtain a security interest in securities purchased under agreements to resell.

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

(l) Other Invested Assets: Other invested assets consist primarily of investments by AIG's insurance operations in joint ventures and partnerships and other investments not classified elsewhere herein. The joint ventures and partnerships are carried at equity or cost depending on the nature of the invested asset and the ownership percentage thereof. Other investments are carried at cost or market values depending upon the nature of the underlying assets. Unrealized gains and losses from the revaluation of those investments carried at market values are reflected in capital funds, net of any related deferred income taxes.

(m) Reinsurance Assets: Reinsurance assets include the balances due from both reinsurance and insurance companies under the terms of AIG's reinsurance arrangements for paid and unpaid losses and loss expenses, ceded unearned premiums and ceded future policy benefits for life and accident and health insurance contracts and benefits paid and unpaid. It also includes funds held under reinsurance treaties.

(n) Investments in Partially-Owned Companies: The equity method of accounting is used for AIG's investment in companies in which AIG's ownership interest approximates twenty but is not greater than fifty percent (minority-owned companies). Equity in income of minority-owned insurance operations is presented separately in the consolidated statement of income. Equity in realized capital gains of such companies is included in other realized capital gains (losses). Equity in net income of other unconsolidated companies is principally included in other income (deductions)-net. At December 31, 1997, AIG's significant investments in partially-owned companies included its 49.0 percent interest in Transatlantic Holdings, Inc. (Transatlantic), which derives approximately 14 percent of its assumed reinsurance from AIG subsidiaries; its 19.9 percent interest in Richmond Insurance Company; its 23.9 percent interest in SELIC Holdings, Ltd; and its 24.4 percent interest in IPC Holdings, Ltd. This balance sheet caption also includes investments in less significant partially-owned companies and in certain minor majority-owned subsidiaries. At December 31, 1997, the market value of AIG's investment in Transatlantic exceeded its carrying value by approximately $519.5 million. The amount of dividends received from unconsolidated subsidiaries owned less than 50 percent were $29,978,000, $13,431,000 and $6,515,000 in 1997, 1996 and 1995 respectively. The undistributed earnings of unconsolidated subsidiaries owned less than 50 percent was $563,592,000 as of December 31, 1997.

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 will be consolidated as a component of general insurance operations.

(o) Real Estate and Other Fixed Assets: The costs of buildings and furniture and equipment are depreciated principally on a straight-line basis over their estimated useful lives (maximum of 40 years for buildings and 10 years for furniture and equipment). Expenditures for maintenance and repairs are charged to income as incurred; expenditures for betterments are capitalized and depreciated.

(p) Separate and Variable Accounts: Separate and variable accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders. Each account has specific investment objectives, and the assets are carried at market value. The assets of each account are legally segregated and are not subject to claims which arise out of any other business of AIG.

(q) Securities and Spot Commodities Sold but not yet Purchased, at market value: Securities and spot commodities sold but not yet purchased represent sales of securities and spot commodities not owned at the time of sale. Securities are recorded on a trade date basis and are carried at current market values. Spot commodities are carried at current market values based upon current commodity prices. Unrealized gains and losses are reflected in income currently.

(r) Preferred Shareholders' Equity in Subsidiary Company: Preferred shareholders' equity in subsidiary company relates to outstanding market auction preferred stock of International Lease Finance Corporation (ILFC), a wholly owned subsidiary of AIG. Dividends on such preferred stock are accounted for as interest expense and included as minority interest in the consolidated statement of income.

(s) Translation of Foreign Currencies: Financial statement accounts expressed in foreign currencies are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" (FASB 52). Under FASB 52, functional currency assets and liabilities are translated into U.S. dollars generally using current rates of exchange and the related translation adjustments are recorded as a separate component of capital funds net of any related taxes. Functional currencies are generally the currencies of the local operating environment. Income statement accounts expressed in

1. Summary of Significant Accounting Policies (continued)

functional currencies are translated using average exchange rates. The adjustments resulting from translation of financial statements of foreign entities operating in highly inflationary economies are recorded in income. Exchange gains and losses resulting from foreign currency transactions are also recorded in income currently. The exchange gain or loss with respect to utilization of foreign exchange hedging instruments is recorded as a component of capital funds.

(t) Income Taxes: Deferred federal and foreign income taxes are provided for temporary differences for the expected future tax consequences of events that have been recognized in AIG's financial statements or tax returns.

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

The computation of earnings per share for December 31, 1997, 1996 and 1995 was as follows:

(in thousands, except per share amounts)

Years Ended December 31,	1997	1996	1995
Numerator:			
Net income applicable to common stock	$3,332,335	$2,897,257	$2,510,383
Denominator:			
Average outstanding shares used in the computation of per share earnings:			
Common stock issued	759,124	759,126	759,128
Common stock in treasury	(57,194)	(52,558)	(48,095)
Average outstanding shares-basic	701,930	706,568	711,033
Stock options (treasury stock method)	3,025	2,716	2,452
Stock purchase plan	29	32	27
Average outstanding shares-diluted	704,984	709,316	713,512
Earnings per share:			
Basic	$4.75	$4.10	$3.53
Diluted	4.73	4.08	3.52

(v) Accounting Standards: In June 1996, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (FASB 125). This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement provides consistent standards for distinguishing transfer of financial assets that are sales from transfers that are secured borrowings. FASB 125 was effective January 1, 1997.

In December 1996, FASB issued Statement of Financial Accounting Standards No. 127 "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125" (FASB 127). FASB 127 delays the implementation of certain provisions of FASB 125 for one year. AIG has adopted all requirements of FASB 125 herein.

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 has adopted all requirements of FASB 128 herein and all prior period information has been restated.

In February 1997, the Securities and Exchange Commission (SEC) issued Financial Reporting Release No. 48 "Disclosure of Accounting Policies for Derivative Financial Instruments and Derivative Commodity Instruments and Disclosure of Quantitative and Qualitative Information about Market Risk Inherent in Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments" (FRR No. 48).

FRR No. 48 amends rules and forms for registrants and requires clarification and expansion of existing disclosures for derivative financial instruments, other financial instruments and derivative commodity instruments, as defined therein. The amendments require enhanced disclosure with respect to these derivative instruments in the footnotes to the financial statements. Additionally, the amendments expand existing disclosure requirements to include quantitative and qualitative discussions with respect to market risk inherent in market risk sensitive instruments such as equity and fixed maturity securities, as well as these derivative instruments. These amendments are designed to provide additional information about market risk sensitive instruments which investors can use to better understand and evaluate market risk exposures of registrants, including AIG. FRR No. 48 has been adopted herein.

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

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

FASB 131 establishes standards for the way AIG is required to disclose information about its operating segments in its annual financial statements and selected information in its interim financial statements. FASB 131 establishes, where practicable, standards with respect to geographic areas, among other

Notes to Financial Statements (CONTINUED)

1. Summary of Significant Accounting Policies (continued)

things. Certain descriptive information is also required. FASB 131 is effective for the year ended December 31, 1998.

2. Foreign Operations

Certain subsidiaries operate solely outside of the United States. Their assets and liabilities are located principally in the countries where the insurance risks are written and/or investment and non-insurance related operations are located. In addition, certain of AIG's domestic subsidiaries have branch and/or subsidiary operations and substantial assets and liabilities in foreign countries. Certain countries have restrictions on the conversions of funds which generally cause a delay in the outward remittance of such funds. Approximately 36 percent and 38 percent of consolidated assets at December 31, 1997 and 1996, respectively, and 54 percent of revenues for each of the years ended December 31, 1997, 1996 and 1995, respectively, were located in or derived from foreign countries (other than Canada). (See Note 17.)

3. Federal Income Taxes

(a) AIG and its domestic subsidiaries file a consolidated U.S. Federal income tax return. Revenue Agent's Reports assessing additional taxes for the years 1987, 1988, 1989 and 1990 have been issued and Letters of Protest contesting the assessments have been filed with the Internal Revenue Service. It is management's belief that there are substantial arguments in support of the positions taken by AIG in its Letters of Protest. Management also believes that the final result of these examinations will be immaterial to the financial statements.

Foreign income not expected to be taxed in the United States has arisen because AIG's foreign subsidiaries were generally not subject to U.S. income taxes on income earned prior to January 1, 1987. Such income would become subject to U.S. income taxes at current tax rates if remitted to the United States or if other events occur which would make these amounts currently taxable. The cumulative amount of translated undistributed earnings of AIG's foreign subsidiaries currently not subject to U.S. income taxes was approximately $2.9 billion at December 31, 1997. Management presently has not subjected and has no intention of subjecting these accumulated earnings to material U.S. income taxes and no provision has been made in the accompanying financial statements for such taxes.

(b) The U.S. Federal income tax rate is 35 percent for 1997, 1996 and 1995. Actual tax expense on income differs from the "expected" amount computed by applying the Federal income tax rate because of the following:

(dollars in thousands)

Years Ended December 31,	1997		1996		1995	
	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income	Amount	Percent of pre-tax income
"Expected" tax expense	$1,644,614	35.0%	$1,404,627	35.0%	$1,213,059	35.0%
Adjustments:						
Tax exempt interest	(286,824)	(6.1)	(278,545)	(6.9)	(274,090)	(7.9)
Dividends received deduction	(14,812)	(0.3)	(23,790)	(0.6)	(18,583)	(0.5)
State income taxes	30,668	0.7	46,925	1.2	48,579	1.4
Foreign income not expected to be taxed in the U.S., less foreign income taxes	(21,602)	(0.5)	(6,619)	(0.2)	(5,010)	(0.1)
Other	14,519	0.3	(26,633)	(0.7)	(8,455)	(0.3)
Actual tax expense	$1,366,563	29.1%	$1,115,965	27.8%	$ 955,500	27.6%
Foreign and domestic components of actual tax expense:						
Foreign:						
Current	$ 316,738		$ 391,791		$ 341,998	
Deferred	74,952		(1,333)		45,685	
Domestic*:						
Current	956,701		679,077		683,776	
Deferred	18,172		46,430		(115,959)	
Total	$1,366,563		$1,115,965		$ 955,500	

* Including U.S. tax on foreign income.

3. Federal Income Taxes (continued)

(c) The components of the net deferred tax liability as of December 31, 1997 and December 31, 1996 were as follows:

(in thousands)

	1997	1996
Deferred tax assets:		
Loss reserve discount	$1,234,502	$1,236,858
Unearned premium reserve reduction	322,332	312,819
Accruals not currently deductible	505,376	385,892
Adjustment to life policy reserves	650,032	638,702
Cumulative translation adjustment	115,926	50,152
Other	17,665	9,122
	2,845,833	2,633,545
Deferred tax liabilities:		
Deferred policy acquisition costs	1,386,970	1,338,501
Financial service products mark to market differential	144,229	153,265
Depreciation of flight equipment	942,861	819,375
Acquisition net asset basis adjustments	118,839	175,698
Unrealized appreciation of investments	592,860	681,705
Other	130,780	51,704
	3,316,539	3,220,248
Net deferred tax liability	$ 470,706	$ 586,703

4. Deferred Policy Acquisition Costs

The following reflects the policy acquisition costs deferred for amortization against future income and the related amortization charged to income for general and life insurance operations, excluding certain amounts deferred and amortized in the same period:

(in thousands)

Years Ended December 31,	1997	1996	1995
General insurance operations:			
Balance at beginning of year	$1,415,849	$1,289,788	$1,179,494
Acquisition costs deferred			
Commissions	592,193	591,708	570,180
Other	845,169	714,491	648,154
	1,437,362	1,306,199	1,218,334
Amortization charged to income			
Commissions	552,493	557,092	590,415
Other	663,507	623,046	517,625
	1,216,000	1,180,138	1,108,040
Balance at end of year	$1,637,211	$1,415,849	$1,289,788
Life insurance operations:			
Balance at beginning of year	$5,055,508	$4,477,785	$3,952,751
Acquisition costs deferred			
Commissions	930,930	941,491	819,596
Other	402,323	400,319	387,438
	1,333,253	1,341,810	1,207,034
Amortization charged to income			
Commissions	411,416	426,569	426,456
Other	220,047	201,145	194,031
	631,463	627,714	620,487
Decrease due to foreign exchange	(802,003)	(136,373)	(61,513)
Balance at end of year	$4,955,295	$5,055,508	$4,477,785
Total deferred policy acquisition costs	$6,592,506	$6,471,357	$5,767,573

5. Reinsurance

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

General reinsurance is effected under reinsurance treaties and by negotiation on individual risks. Certain of these reinsurance arrangements consist of excess of loss contracts which protect AIG against losses over stipulated amounts. Amounts recoverable from general reinsurers are estimated in a manner consistent with the claims liabilities associated with the reinsurance and presented as a component of reinsurance assets.

AIG life companies limit exposure to loss on any single life. For ordinary insurance, AIG retains a maximum of approximately one million dollars of coverage per individual life. There are smaller retentions for other lines of business. Life reinsurance is effected principally under yearly renewable term treaties. Amounts recoverable from life reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented as a component of reinsurance assets.

General insurance premiums written and earned were comprised of the following:

(in thousands)

Years Ended December 31,	Written	Earned
1997		
Gross premiums	$18,742,055	$17,565,566
Ceded premiums	(5,334,526)	(5,144,526)
Net premiums	$13,407,529	$12,421,040
1996		
Gross premiums	$18,319,132	$17,579,868
Ceded premiums	(5,627,453)	(5,725,053)
Net premiums	$12,691,679	$11,854,815
1995		
Gross premiums	$17,895,120	$17,243,829
Ceded premiums	(6,002,098)	(5,838,098)
Net premiums	$11,893,022	$11,405,731

In the normal course of their operations, certain AIG subsidiaries are provided reinsurance coverages from AIG's minority-owned reinsurance companies. During 1997, 1996 and 1995, the premiums written which were ceded to Transatlantic amounted to $182,000,000, $232,000,000 and $189,000,000, respectively.

For the years ended December 31, 1997, 1996 and 1995, reinsurance recoveries, which reduced loss and loss expenses incurred, amounted to $4.59 billion, $5.07 billion and $5.14 billion, respectively.

Notes to Financial Statements (CONTINUED)

5. Reinsurance (continued)

Life insurance net premium income was comprised of the following:

(in thousands)

Years Ended December 31,	1997	1996	1995
Gross premium income	$ 10,211,778	$ 9,239,388	$ 8,245,422
Ceded premiums	(286,139)	(261,142)	(207,272)
Net premium income	$ 9,925,639	$ 8,978,246	$ 8,038,150

Life insurance recoveries, which reduced death and other benefits, approximated $136.5 million, $113.5 million and $111.4 million, respectively, for the years ended December 31, 1997, 1996 and 1995.

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

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

Life insurance ceded to other insurance companies was as follows:

(in thousands)

Years Ended December 31,	1997	1996	1995
Life insurance in-force	$50,924,412	$44,691,358	$37,148,984

Life insurance assumed represented 0.3 percent of gross life insurance in-force at December 31, 1997, 0.2 percent for 1996 and 0.1 percent for 1995, and life insurance premium income assumed represented 0.1 percent of gross premium income for each of the periods ended December 31, 1997, 1996 and 1995.

Supplemental information for gross loss and benefit reserves net of ceded reinsurance at December 31, 1997 and 1996 follows:

(in thousands)

	As Reported	Net of Reinsurance
December 31, 1997		
Reserve for losses and loss expenses	$(33,400,160)	$(21,171,460)
Future policy benefits for life and accident and health insurance contracts	(24,502,005)	(24,374,505)
Premiums and insurance balances receivable-net	10,282,987	12,306,351
Funds held under reinsurance treaties	--	80,857
Reserve for unearned premiums	(8,739,006)	(7,088,906)
Reinsurance assets	16,110,521	--
December 31, 1996		
Reserve for losses and loss expenses	$(33,429,807)	$(20,407,307)
Future policy benefits for life and accident and health insurance contracts	(24,002,860)	(23,858,860)
Premiums and insurance balances receivable-net	9,617,061	11,442,791
Funds held under reinsurance treaties	--	74,236
Reserve for unearned premiums	(7,598,928)	(6,138,828)
Reinsurance assets	16,526,566	--

6. Reserve for Losses and Loss Expenses and Future Life Policy Benefits and Policyholders' Contract Deposits

(a) The following analysis provides a reconciliation of the activity in the reserve for losses and loss expenses:

(in thousands)

Years Ended December 31,	1997	1996	1995
At beginning of year:			
Reserve for losses and loss expenses	$ 33,429,800	$ 33,046,700	$ 31,435,400
Reinsurance recoverable	(13,022,500)	(13,353,900)	(13,016,500)
	20,407,300	19,692,800	18,418,900
Losses and loss expenses incurred:			
Current year	9,732,600	9,272,400	8,935,400
Prior year	(376,400)	(276,000)	(275,600)
Total	9,356,200	8,996,400	8,659,800
Losses and loss expenses paid:			
Current year	2,976,300	3,000,500	2,610,900
Prior year	5,615,700	5,281,400	4,775,000
Total	8,592,000	8,281,900	7,385,900
At end of year:			
Net reserve for losses and loss expenses	21,171,500	20,407,300	19,692,800
Reinsurance recoverable	12,228,700	13,022,500	13,353,900
Total	$ 33,400,200	$ 33,429,800	$ 33,046,700

6. Reserve for Losses and Loss Expenses and Future Life Policy Benefits and Policyholders' Contract Deposits (continued)

(b) The analysis of the future policy benefits and policyholders' contract deposits liabilities as at December 31, 1997 and 1996 follows:

(in thousands)

	1997	1996
Future policy benefits:		
Long duration contracts	$23,917,835	$23,382,945
Short duration contracts	584,170	619,915
Total	$24,502,005	$24,002,860
Policyholders' contract deposits:		
Annuities	$ 4,758,872	$ 4,138,141
Guaranteed investments contracts (GICs)	2,676,447	2,329,558
Corporate-owned life insurance	1,967,060	2,323,788
Universal life	540,352	480,720
Other investment contracts	380,381	531,202
Total	$10,323,112	$ 9,803,409

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

(i) Interest rates (exclusive of immediate/terminal funding annuities), which vary by territory, year of issuance and products, range from 2.5 percent to 12.0 percent within the first 20 years. Interest rates on immediate/terminal funding annuities are at a maximum of 12.2 percent and grade to not greater than 7.5 percent.

(ii) Mortality and surrender rates are based upon actual experience by geographical area modified to allow for variations in policy form. The weighted average lapse rate, including surrenders, for individual and group life approximated 7.1 percent.

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

(iv) Participating life business represented approximately 30 percent of the gross insurance in-force at December 31, 1997 and 49 percent of gross premium income in 1997. The amount of dividends to be paid is determined annually by the Boards of Directors. Anticipated dividends are considered as a planned contractual benefit in computing the value of future policy benefits and are provided ratably over the premium-paying period of the contracts.

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

(i) Interest rates credited on deferred annuities vary by year of issuance and range from 3.0 percent to 8.0 percent. Credited interest rate guarantees are generally for a period of one year. Withdrawal charges generally range from 3.0 percent to 10.0 percent grading to zero over a period of 5 to 10 years.

(ii) Domestically, GICs have market value withdrawal provisions for any funds withdrawn other than benefit responsive payments. Interest rates credited generally range from 4.7 percent to 8.1 percent and maturities range from 3 to 20 years. Overseas, primarily in the United Kingdom, GIC type contracts are credited at rates ranging from 5.0 percent to 6.6 percent with guarantees generally being one year. Contracts in other foreign locations have interest rates, maturities and withdrawal charges based upon local economic and regulatory conditions.

(iii) Interest rates on corporate-owned life insurance business are guaranteed at 4.0 percent and the weighted average rate credited in 1997 was 7.7 percent.

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

(e) Experience adjustments, relating to future policy benefits and policyholders' contract deposits, vary according to the type of contract and the territory in which the policy is in force. In general terms, investments, mortality and morbidity results may be passed through by experience credits or as an adjustment to the premium mechanism, subject to local regulatory guidance.

7. Statutory Financial Data

Statutory surplus and net income for general insurance and life insurance operations as reported to regulatory authorities were as follows:

(in thousands) Years Ended December 31,	1997	1996	1995
Statutory surplus:			
General insurance	$14,071,326	$12,311,358	$11,142,956
Life insurance	5,535,236	5,541,910	4,788,833
Statutory net income*:			
General insurance	2,041,050	1,727,286	1,499,345
Life insurance	1,099,632	851,382	681,189

* Includes net realized capital gains and losses.

AIG's insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic or foreign insurance regulatory authorities. The differences between statutory financial statements and financial statements prepared in accordance with GAAP vary between domestic and foreign jurisdictions. The principal differences are that statutory financial statements do not reflect deferred policy acquisition costs and deferred income taxes, all bonds are carried at amortized cost and reinsurance assets and liabilities are presented net of reinsurance. AIG's use of permitted statutory accounting practices does not have a significant impact on statutory surplus.

Notes to Financial Statements (CONTINUED)

8. Investment Information

(a) Statutory Deposits: Cash and securities with carrying values of $3.86 billion and $3.94 billion were deposited by AIG's subsidiaries under requirements of regulatory authorities as of December 31, 1997 and 1996, respectively.

(b) Net Investment Income: An analysis of the net investment income from the general and life insurance operations follows:

(in thousands)

Years Ended December 31,	1997	1996	1995
General insurance:			
Fixed maturities	$1,489,997	$1,391,674	$1,323,321
Equity securities	55,150	75,265	53,059
Short-term investments	39,885	40,444	46,378
Other (net of interest expense on funds held)	336,729	253,032	199,563
Total investment income	1,921,761	1,760,415	1,622,321
Investment expenses	68,238	69,617	74,749
Net investment income	$1,853,523	$1,690,798	$1,547,572
Life insurance:			
Fixed maturities	$2,031,157	$1,773,211	$1,517,990
Equity securities	63,608	86,850	70,794
Short-term investments	70,421	62,268	67,218
Interest on mortgage, policy and collateral loans	538,947	678,476	605,251
Other	309,456	193,614	105,119
Total investment income	3,013,589	2,794,419	2,366,372
Investment expenses	117,120	118,538	101,467
Net investment income	$2,896,469	$2,675,881	$2,264,905

(c) Investment Gains and Losses: The realized capital gains (losses) and increase (decrease) in unrealized appreciation of investments for 1997, 1996 and 1995 were as follows:

(in thousands)

Years Ended December 31,	1997	1996	1995
Realized capital gains (losses) on investments:			
Fixed maturities (a)	$ 85,763	$ (32,600)	$ 54,293
Equity securities	125,431	156,839	69,639
Other	(92,679)	(36,248)	(52,098)
Realized capital gains	$ 118,515	$ 87,991	$ 71,834
Increase (decrease) in unrealized appreciation of investments:			
Fixed maturities	$ 227,627	$ (227,491)	$ 1,905,315
Equity securities	(422,962)	266,648	335,006
Other (b)	78,354	(30,285)	(430,956)
Increase (decrease) in unrealized appreciation	$ (116,981)	$ 8,872	$ 1,809,365

(a) The realized gains (losses) resulted from the sale of available for sale fixed maturities.
(b) Includes $157.5 million decrease, $51.2 million increase and $480.9 million increase in unrealized appreciation attributable to participating policyholders at December 31, 1997, 1996 and 1995, respectively.

The gross gains and gross losses realized on the disposition of available for sale securities for 1997, 1996 and 1995 follow:

(in thousands)

	Gross Realized Gains	Gross Realized Losses
1997		
Bonds	$ 78,549	$ 72,290
Common stocks	535,657	413,135
Preferred stocks	3,267	358

Financial services securities available for sale	6,223	1,761
Total	$623,696	$487,544
1996		
Bonds	$ 55,031	$ 80,337
Common stocks	353,865	200,837
Preferred stocks	4,304	493
Financial services securities available for sale	6,668	932
Total	$419,868	$282,599
1995		
Bonds	$ 60,205	$ 42,633
Common stocks	276,036	215,162
Preferred stocks	10,189	1,510
Financial services securities available for sale	8,244	799
Total	$354,674	$260,104

(d) Market Value of Fixed Maturities and Unrealized Appreciation of Investments: At December 31, 1997 and 1996, the balance of the unrealized appreciation of investments in equity securities (before applicable taxes) included gross gains of approximately $1,847,900,000 and $1,683,000,000 and gross losses of approximately $1,263,700,000 and $675,800,000, respectively.

The deferred tax payable related to the net unrealized appreciation of investments was $592,860,000 at December 31, 1997 and $681,705,000 at December 31, 1996.

8. Investment Information (continued)

The amortized cost and estimated market value of investments in fixed maturities carried at amortized cost at December 31, 1997 and 1996 were as follows:

(in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
1997				
Fixed maturities held to maturity:				
Bonds:				
U.S. Government (a)	$ 8,644	$ 867	$ 4	$ 9,507
States (b)	12,521,540	835,821	1,332	13,356,029
Foreign governments	131	36	--	167
All other corporate	--	--	--	--
Total bonds	12,530,315	836,724	1,336	13,365,703
Preferred stocks	239,331	291,618	244	530,705
Total fixed maturities	$12,769,646	$ 1,128,342	$ 1,580	$13,896,408
1996				
Fixed maturities held to maturity:				
Bonds:				
U.S. Government (a)	$ 5,500	$ 368	$ 57	$ 5,811
States (b)	12,251,042	613,340	7,279	12,857,103
Foreign governments	937	2	--	939
All other corporate	1,499	5	--	1,504
Total bonds	12,258,978	613,715	7,336	12,865,357
Preferred stocks	477,247	114,088	244	591,091
Total fixed maturities	$12,736,225	$ 727,803	$ 7,580	$13,456,448

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

The amortized cost and estimated market value of bonds available for sale and carried at market value at December 31, 1997 and 1996 were as follows:

(in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
1997				
Fixed maturities available for sale:				
Bonds:				
U.S. Government (a)	$ 1,253,526	$ 117,215	$ 546	$ 1,370,195
States (b)	5,870,181	332,673	2,157	6,200,697
Foreign governments	8,311,342	373,808	104,534	8,580,616
All other corporate	21,133,311	904,520	111,547	21,926,284
Total bonds	$36,568,360	$ 1,728,216	$ 218,784	$38,077,792
1996				
Fixed maturities available for sale:				
Bonds:				
U.S. Government(a)	$ 1,520,202	$ 74,112	$ 24,023	$ 1,570,291
States(b)	5,430,777	216,421	13,046	5,634,152
Foreign governments	8,487,838	402,373	4,722	8,885,489
All other corporate	18,804,310	681,513	50,823	19,435,000
Total bonds	$34,243,127	$ 1,374,419	$ 92,614	$35,524,932

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

The amortized cost and estimated market values of fixed maturities held to maturity and fixed maturities available for sale at December 31, 1997, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

(in thousands)

	Amortized Cost	Estimated Market Value
Fixed maturities held to maturity:		
Due in one year or less	$ 944,201	$ 990,751
Due after one year through five years	1,487,542	1,739,065
Due after five years through ten years	2,506,819	2,805,494
Due after ten years	7,831,084	8,361,098
Total held to maturity	$12,769,646	$13,896,408
Fixed maturities available for sale:		
Due in one year or less	$ 2,926,040	$ 2,970,054
Due after one year through five years	12,618,805	13,179,692
Due after five years through ten years	12,278,298	12,851,431
Due after ten years	8,745,217	9,076,615
Total available for sale	$36,568,360	$38,077,792

(e) Securities Available for Sale: AIGFP follows a policy of minimizing interest rate, equity and currency risks associated with securities available for sale by entering into swap or other transactions. In addition, to reduce its credit risk, AIGFP has entered into credit derivative transactions with respect to $444.0 million of securities available for sale. At December 31, 1997, the cumulative increase in carrying value of the securities available for sale and related hedges as a result of marking to market such securities net of hedging transactions was $73,000.

Notes to Financial Statements (CONTINUED)

8. Investment Information (continued)

The amortized cost, related hedges and estimated market value of securities available for sale and carried at market value at December 31, 1997 and 1996 were as follows:

(in thousands)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Unrealized Gains (Losses) - net on Hedging Transactions	Estimated Market Value
1997					
Securities available for sale:					
Corporate and bank debt	$5,202,798	$ 45,144	$ 36,881	$ (10,314)	$5,200,747
Foreign government obligations	337,592	1,577	29,603	28,814	338,380
Asset-backed and collateralized	2,343,883	34,314	15,622	(17,663)	2,344,912
Preferred stocks	675,221	84	1,496	1,715	675,524
U.S. Government obligations	585,750	11,679	--	(11,675)	585,754
Total	$9,145,244	$ 92,798	$ 83,602	$ (9,123)	$9,145,317
1996					
Securities available for sale:					
Corporate and bank debt	$4,800,081	$ 69,294	$ 20,140	$ (45,385)	$4,803,850
Foreign government obligations	2,252,477	159,484	64,710	(88,683)	2,258,568
Asset-backed and collateralized	1,666,894	54,754	4,043	(50,268)	1,667,337
Preferred stocks	553,050	2,947	2,719	(30)	553,248
U.S. Government obligations	503,203	1,877	2,865	691	502,906
Total	$9,775,705	$ 288,356	$ 94,477	$ (183,675)	$9,785,909

The amortized cost and estimated market values of securities available for sale at December 31, 1997, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

(in thousands)

	Amortized Cost	Estimated Market Value
Securities available for sale:		
Due in one year or less	$2,237,014	$2,237,403
Due after one year through five years	2,769,777	2,769,920
Due after five years through ten years	1,062,662	1,060,973
Due after ten years	731,908	732,109
Asset-backed and collateralized	2,343,883	2,344,912
Total available for sale	$9,145,244	$9,145,317

No securities available for sale were below investment grade at December 31, 1997.

(f) CMOs: At December 31, 1997, CMOs, held by AIG's life companies, were presented as a component of bonds available for sale, at market value. All of the CMOs were investment grade and approximately 59 percent of the CMOs were backed by various U.S. government agencies. The remaining 41 percent were corporate issuances.

At December 31, 1997 and 1996, the market value of the CMO portfolio was $2.58 billion and $2.24 billion, respectively; the amortized cost was approximately $2.47 billion in 1997 and $2.18 billion in 1996. AIG's CMO portfolio is readily marketable. There were no derivative (high risk) CMO securities contained in this portfolio at December 31, 1997 and 1996.

The distribution of the CMOs at December 31, 1997 and 1996 was as follows:

	1997	1996
GNMA	20%	25%
FHLMC	19	23
FNMA	16	20
VA	4	4
Other	41	28
	100%	100%

==

At December 31, 1997, the gross weighted average coupon of this portfolio was 7.5 percent. The gross weighted average life of this portfolio was 5.8 years.

(g) Fixed Maturities Below Investment Grade: At December 31, 1997, fixed maturities held by AIG that were below investment grade or not rated totaled $4.32 billion.

(h) At December 31, 1997, non-income producing invested assets were insignificant.

9. Debt Outstanding

At December 31, 1997, AIG's debt outstanding of $25.26 billion, shown below, included borrowings of $22.28 billion which were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

(in thousands)

Borrowings under Obligations of GIAs -- AIGFP	$ 8,000,326
Commercial Paper:	
AIG Funding Inc. (Funding)	307,997
ILFC (a)	2,208,167
A.I. Credit Corp. (AICCO)	833,647
Universal Finance Company (UFC) (a)	25,096
Total	3,374,907
Medium Term Notes:	
ILFC (a)	2,896,865
AIG	248,225
Total	3,145,090
Notes and Bonds Payable:	
ILFC (a)	3,950,000
AIGFP	4,858,706
AIG: Lire bonds	159,067
Zero coupon notes	91,179
Total	9,058,952
Loans and Mortgages Payable:	
ILFC (a) (b)	903,320
SPC Credit Limited (a)	538,988
AIG	239,062
Total	1,681,370
Total Borrowings	25,260,645
Borrowings not guaranteed by AIG	10,522,436
Matched GIA borrowings	8,000,326
Matched notes and bonds payable -- AIGFP	3,754,420
	22,277,182
Remaining borrowings of AIG	$ 2,983,463

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

(a) Commercial Paper: At December 31, 1997, the commercial paper issued and outstanding was as follows:

(dollars in thousands)

	Net Book Value	Unamortized Discount	Face Amount	Weighted Average Interest Rate	Weighted Average Maturity
Funding	$ 307,997	$ 1,061	$ 309,058	5.86%	22 days
ILFC	2,208,167	17,434	2,225,601	5.88	66 days
AICCO	833,647	1,637	835,284	5.74	14 days
UFC*	25,096	883	25,979	7.90	176 days
Total	$3,374,907	$ 21,015	$3,395,922	--	--

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

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

(b) Borrowings under Obligations of Guaranteed Investment Agreements: Borrowings under obligations of guaranteed investment agreements, which are guaranteed by AIG, are recorded at the amount outstanding under each contract. Obligations may be called at various times prior to maturity at the option of the counterparty. Interest rates on these borrowings are primarily fixed and range up to 9.8 percent.

Payments due under these investment agreements in each of the next five years ending December 31, and the periods thereafter based on the earliest call dates, were as follows:

(in thousands)

	Principal Amount
1998	$4,022,565
1999	881,114
2000	229,157
2001	55,776
2002	52,752
Remaining years after 2002	2,758,962
Total	$8,000,326

At December 31, 1997, the market value of securities pledged as collateral with respect to these obligations approximated $757.9 million.

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

(c) Medium Term Notes Payable:

(i) Medium Term Notes Payable Issued by AIG: AIG's Medium Term Notes are unsecured obligations which normally may not be redeemed by AIG prior to maturity and bear interest at either fixed rates set by AIG at issuance or variable rates determined by reference to an interest rate or other formula.

An analysis of the Medium Term Notes for the year ended December 31, 1997 was as follows:

(in thousands)

Medium Term Note Series:	B	E	Total
Balance December 31, 1996	$40,000	$100,000	$ 140,000
Issued during year	--	108,225	108,225
Balance December 31, 1997	$40,000	$208,225	$248,225

The interest rates on this debt range from 2.25 percent to 8.12 percent. To the extent deemed appropriate, AIG may enter into swap transactions to reduce its effective borrowing rates with respect to these notes.

During 1997, AIG issued $100 million principal amount of equity-linked Medium Term Notes due July 30, 2004. These notes accrue interest at the rate of 2.25 percent and the total return on these notes is linked to the appreciation in market value of AIG's common stock. The notes may be redeemed, at the option of AIG, as a whole but not in part, at any time on or after July 30, 2000. In conjunction with the issuance of these notes, AIG entered into a series of swap transactions

9. Debt Outstanding (continued)

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

At December 31, 1997, the maturity schedule for AIG's outstanding Medium Term Notes was as follows:

(in thousands)

	Principal Amount
1998	$ 40,000
1999	108,225
Remaining years after 2002	100,000
Total	$248,225

At December 31, 1997, AIG had $538.8 million principal amount of Term Notes registered and available for issuance from time to time.

(ii) Medium Term Notes Payable Issued by ILFC: ILFC's Medium Term Notes are unsecured obligations which may not be redeemed by ILFC prior to maturity and bear interest at fixed rates set by ILFC at issuance.

As of December 31, 1997, notes in aggregate principal amount of $2.90 billion were outstanding with maturity dates from 1998 to 2005 at interest rates ranging from 5.05 percent to 9.88 percent. These notes provide for a single principal payment at the maturity of each note.

At December 31, 1997, the maturity schedule for ILFC's outstanding Medium Term Notes was as follows:

(in thousands)

	Principal Amount
1998	$ 768,115
1999	673,250
2000	967,500
2001	266,000
2002	116,000
Remaining years after 2002	106,000
Total	$2,896,865

(d) Notes and Bonds Payable:

(i) Zero Coupon Notes: On October 1, 1984, AIG issued Eurodollar zero coupon notes in the aggregate principal amount at stated maturity of $750 million. The notes were offered at 12 percent of principal amount at stated maturity, bear no interest and are due August 15, 2004. The net proceeds to AIG from the issuance were $85.6 million. The notes are redeemable at any time in whole or in part at the option of AIG at 100 percent of their principal amount at stated maturity. The notes are also redeemable at the option of AIG or bearer notes may be redeemed at the option of the holder in the event of certain changes involving taxation in the United States at prices ranging from 47.39 percent currently, to 89.88 percent after August 15, 2003, of the principal amount at stated maturity together with accrued amortization of original issue discount from the preceding August 15. During 1997 and 1996, no notes were repurchased. At December 31, 1997, the notes outstanding had a face value of $189.2 million, an unamortized discount of $98.0 million and a net book value of $91.2 million. The amortization of the original issue discount was recorded as interest expense.

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

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

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

As of December 31, 1997, notes in aggregate principal amount of $3.95 billion were outstanding with maturity dates from 1998 to 2004 and interest rates ranging from 5.50 percent to 8.88 percent. Term notes in the aggregate principal amount of $500 million are at floating interest rates and the remainder are at fixed rates. These notes provide for a single principal payment at maturity.

At December 31, 1997, the maturity schedule for ILFC's Term Notes was as follows:

(in thousands)

	Principal Amount
1998	$ 950,000
1999	1,150,000
2000	900,000
2001	650,000
2002	200,000
Remaining years after 2002	100,000
Total	$3,950,000

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

9. Debt Outstanding (continued)

(iv) Notes and Bonds Payable Issued by AIGFP: At December 31, 1997, AIGFP's bonds outstanding, the proceeds of which are invested in a segregated portfolio of securities available for sale, were as follows:

(dollars in thousands)

Year of Issue	Maturity	Currency	Interest Rate	U.S. Dollar Carrying Value
1993	1999	French franc	4.60%	$ 514,800
1995	2000	Great Britain pound	5.88	384,900
1995	1998	Italian lire	7.76	122,600
1996	2001	Great Britain pound	6.09	387,100
1996	1998	Italian lire	6.60	326,700
1996	1998	New Zealand dollar	8.51	354,200
1997	2002	US dollar	5.16	150,000
1997	1999	Irish punt	6.20	158,200
1997	2020	US dollar	8.75	356,200
1997	2000	Irish punt	6.19	294,400
1997	2000	Irish punt	5.96	147,600
1997	2002	New Zealand dollar	8.52	125,300
1997	1998	New Zealand dollar	9.43	117,100
1997	1998	Danish kroner	3.46	64,000
1997	2000	Great Britain pound	6.25	84,300
1997	1998	Great Britain pound	6.23	82,400
1997	2020	US dollar	8.75	90,000
1997	2020	US dollar	8.75	77,500
1997	2000	French franc	3.68	50,200
Total				$3,887,500

AIGFP has also issued various credit linked notes maturing from 1998 through 2000. These notes have been issued to hedge certain credit risks in AIGFP's portfolio of securities available for sale. The notes are primarily U.S. dollar denominated and have U.S. dollar interest rates ranging from 5.3 percent to 7.0 percent. AIGFP's payment obligations under these notes would be reduced or eliminated upon the occurrence of a payment default or a bankruptcy event with respect to certain third party credit that is being hedged. At December 31, 1997, these notes had a U.S. dollar carrying value of $503.4 million. No obligations under these notes were reduced or eliminated during 1997.

AIGFP is also obligated under various notes maturing from 1998 through 2026. The majority of these notes are denominated in U.S. dollars and bear interest at various interest rates. At December 31, 1997, these notes had a U.S. dollar carrying value of $467.9 million.

AIG guarantees all of AIGFP's debt.

(e) Loans and Mortgages Payable: Loans and mortgages payable at December 31, 1997, consisted of the following:

(in thousands)

	ILFC	SPC	AIG	Total
Uncollateralized loans payable	$ --	$ 538,988	$ 138,198	$ 677,186
Collateralized loans and mortgages payable	903,320	--	100,864	1,004,184
Total	$ 903,320	$ 538,988	$ 239,062	$1,681,370

At December 31, 1997, ILFC's capital lease obligations were $903.3 million. Fixed interest rates with respect to these obligations range from 6.18 percent to 6.89 percent; variable rates are referenced to LIBOR. These obligations mature through 2005. The flight equipment associated with the capital lease obligations had a net book value of $1.15 billion.

(f) Revolving Credit Facilities: AIG and Funding have entered into two syndicated revolving credit facilities (the Facilities) aggregating $1 billion. The Facilities consist of a $500 million 364 day revolving credit facility and a $500 million five year revolving credit facility. The Facilities can be used for general corporate purposes and also provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding as of December 31, 1997.

(g) Interest Expense for All Indebtedness: Total interest expense for all indebtedness, net of capitalized interest, aggregated $1,704,083,000 in 1997, $1,491,318,000 in 1996 and $1,361,140,000 in 1995. Dividends on the preferred stock of ILFC are accounted for as interest expense and included as minority interest in the consolidated statement of income. The dividends for December 31, 1997, 1996 and 1995 were $16,348,000, $16,599,000 and $13,096,000, respectively.

10. Capital Funds

(a) At December 31, 1997, there were 6,000,000 shares of AIG's $5 par value serial preferred stock authorized, issuable in series.

(b) AIG parent depends on its subsidiaries for cash flow in the form of loans, advances and dividends. AIG's insurance subsidiaries are subject to regulatory restrictions on the amount of dividends which can be remitted to AIG parent. These restrictions vary by state. For example, unless permitted by the New York Superintendent of Insurance, general insurance companies domiciled in New York may not pay dividends to shareholders which in any twelve month period exceed the lesser of 10 percent of the company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income", as defined. Generally, less severe restrictions applicable to both general and life insurance companies exist in most of the other states in which AIG's insurance subsidiaries are domiciled. Certain foreign jurisdictions have restrictions which generally cause only a temporary delay in the remittance of dividends. There are also various local restrictions limiting cash loans and advances to AIG by its subsidiaries. Largely as a

Notes to Financial Statements (CONTINUED)

10. Capital Funds (continued)

result of the restrictions, approximately 64 percent of consolidated capital funds were restricted from immediate transfer to AIG parent at December 31, 1997.

(c) The common stock activity for the three years ended December 31, 1997 was as follows:

	1997	1996	1995
Shares outstanding at beginning of year	469,441,146	474,184,226	315,840,626
Acquired during year	(4,657,254)	(5,384,672)	(236,443)
Issued under stock option and purchase plans	986,289	540,768	517,844
Issued in connection with acquisition	4,391	100,824	--
Stock split effected as stock dividend	253,037,334	--	168,693,199
Other*	(19,293,625)	--	(10,631,000)
Shares outstanding at end of year	699,518,281	469,441,146	474,184,226

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

Common stock increased and retained earnings decreased $632.6 million as a result of a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997.

Common stock increased and additional paid-in capital decreased $421.7 million as a result of a common stock split in the form of a 50 percent common stock dividend paid July 28, 1995.

11. Commitments and Contingent Liabilities

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

(a) Commitments to extend credit are agreements to lend subject to certain conditions. These commitments generally have fixed expiration dates or termination clauses and typically require payment of a fee. At December 31, 1997 and 1996, these commitments, made principally by AIG Capital Corp., approximated $92,400,000 and $95,200,000, respectively. AIG uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. AIG evaluates each counterparty's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by AIG upon extension of credit, is based on management's credit evaluation of the counterparty.

(b) AIG and certain of its subsidiaries become parties to financial instruments with market risk resulting from both dealer and end user activities and to reduce currency, interest rate, equity and commodity exposures. To the extent those instruments are carried at their estimated fair value, the elements of currency, interest rate, equity and commodity risks are reflected in the consolidated balance sheet. In addition, these instruments involve, to varying degrees, elements of credit risk not explicitly recognized in the consolidated balance sheet. Collateral is required, at the discretion of AIG, on certain transactions based on the creditworthiness of the counterparty.

(c) AIGFP becomes a party to off-balance sheet financial instruments in the normal course of its business and to reduce its currency, interest rate and equity exposures. Interest rate, currency and equity risks related to such instruments are reflected in the consolidated financial statements to the extent these instruments are carried at a market or a fair value, whichever is appropriate. Because of limited liquidity of certain of these instruments, the recorded estimated fair values of such instruments may be different than the values that might be realized if AIGFP were to sell or close out the transactions prior to maturity.

AIGFP, as principal and for its own account, enters into interest rate, currency and equity swaps, swaptions and forward commitments. Interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying principal amounts. AIGFP typically becomes a principal in the exchange of interest payments between the parties and, therefore, may be exposed to loss, if counterparties default. Currency and equity swaps are similar to interest rate swaps, but may involve the exchange of principal amounts at the beginning and end of the transaction. At December 31, 1997, the notional principal amount of the sum of the swap pays and receives approximated $266.46 billion, primarily related to interest rate swaps of approximately $200.49 billion.

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

The notional amounts used to express the extent of AIGFP's, AIGTG's and ILFC's involvement in swap transactions represent a standard of measurement of the volume of AIGFP's, AIGTG's and ILFC'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.

11. Commitments and Contingent Liabilities (continued)

The following table presents AIGFP's swaps and swaptions portfolio by maturity and type of derivative at December 31, 1997 and December 31, 1996:

(in thousands)

	Remaining Life					
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total 1997	Total 1996
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$ 57,623,000	$ 85,484,000	$ 47,420,000	$ 9,964,000	$200,491,000	$165,771,800
Currency swaps	8,575,000	28,686,000	12,527,000	4,960,000	54,748,000	39,182,900
Swaptions and equity swaps	857,000	4,734,000	4,129,000	1,497,000	11,217,000	5,721,300
Total	$ 67,055,000	$118,904,000	$ 64,076,000	$ 16,421,000	$266,456,000	$210,676,000

Futures and forward contracts are contracts for delivery of foreign currencies or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from contracted prices and the potential inability of counterparties to meet their obligations under the contracts. At December 31, 1997, the contractual amount of AIGFP's futures and forward contracts approximated $17.7 billion.

The following table presents AIGFP's futures and forward contracts portfolio by maturity and type of derivative at December 31, 1997 and December 31, 1996:

(in thousands)

	Remaining Life					
	One Year	Two Through Five Years	Six Through Ten Years	After Ten Years	Total 1997	Total 1996
Futures and forward contracts:						
Exchange traded futures contracts contractual amount	$ 4,411,000	--	--	--	$ 4,411,000	$ 6,867,300
Over the counter forward contracts contractual amount	$ 13,271,000	--	--	--	$ 13,271,000	$ 5,952,200

These instruments involve, to varying degrees, elements of credit risk not explicitly recognized in the consolidated financial statements. AIGFP utilizes various credit enhancements, including collateral, credit triggers and credit derivatives to reduce the credit exposure relating to these off-balance sheet financial instruments. AIGFP requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties and the transaction's size and maturity. In addition, AIGFP's derivative transactions are generally documented under ISDA Master Agreements. Such agreements provide for legally enforceable set-off and close out netting of exposures to specific counterparties. Under such agreements, in connection with an early termination of a transaction, AIGFP is permitted to set off its receivables from a counterparty against its payables to the same counterparty arising out of all included transactions. As a result, the net replacement value represents the net sum of estimated positive fair values after the application of such strategies, agreements and collateral held. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss. The net replacement value of all interest rate, currency, and equity swaps, swaptions and forward commitments at December 31, 1997, approximated $6.65 billion. The net replacement value for futures and forward contracts at December 31, 1997, approximated $50.0 million.

AIGFP independently evaluates the creditworthiness of its counterparties, taking into account credit ratings assigned by recognized statistical rating organizations. In addition, AIGFP's credit approval process involves pre-set counterparty, country and industry credit exposure limits and, for particularly credit intensive transactions, obtaining approval from AIG's Credit Risk Committee. The average credit rating of AIGFP's counterparties as a whole (as measured by AIGFP) is equivalent to AA. The maximum potential loss will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions.

11. Commitments and Contingent Liabilities (continued)

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1997 and December 31, 1996, 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	Net Replacement Value: Futures and Forward Contracts	Total 1997	Total 1996
Counterparty credit quality:				
AAA	$2,326,502	$ --	$2,326,502	$1,732,315
AA	2,273,532	37,572	2,311,104	2,021,878
A	1,153,007	12,403	1,165,410	1,461,063
BBB	608,448	47	608,495	1,150,420
Below investment grade	289,563	--	289,563	26,293
Total	$6,651,052	$ 50,022	$6,701,074	$6,391,969

At December 31, 1997 and December 31, 1996, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in thousands)

	Net Replacement Value: Swaps and Swaptions	Net Replacement Value: Futures and Forward Contracts	Total 1997	Total 1996
Non-U.S. banks	$2,213,366	$ 49,939	$2,263,305	$2,330,481
Insured municipalities	757,514	--	757,514	656,373
U.S. industrials	513,958	83	514,041	894,942
Governmental	677,230	--	677,230	894,284
Non-U.S. financial service companies	64,787	--	64,787	34,383
Non-U.S. industrials	1,034,792	--	1,034,792	497,839
Special purpose	163,109	--	163,109	121,137
U.S. banks	584,915	--	584,915	251,641
U.S. financial service companies	433,710	--	433,710	534,965
Supranationals	207,671	--	207,671	175,924
Total	$6,651,052	$ 50,022	$6,701,074	$6,391,969

AIGFP has entered into commitments to provide liquidity for certain tax-exempt variable rate demand notes issued by municipal entities. The agreements allow the holders, in certain circumstances, to tender the notes to the issuer at par value. In the event a remarketing agent of an issuer is unable to resell such tendered notes, AIGFP would be obligated to purchase the notes at par value. With respect to certain notes that have been issued, AIGFP has fulfilled its liquidity commitments by arranging bank liquidity facilities. These banks agree to purchase the notes that AIGFP is otherwise obligated to purchase in connection with a failed remarketing. It is the intention of AIGFP to arrange similar liquidity with respect to the $205.0 million aggregate amount of notes that are expected to be issued through 1999.

Securities sold, but not yet purchased represent obligations of AIGFP to deliver specified securities at their contracted prices, and thereby create a liability to repurchase the securities in the market at prevailing prices.

AIGFP monitors and controls its risk exposure on a daily basis through financial, credit and legal reporting systems and, accordingly, believes that it has in place effective procedures for evaluating and limiting the credit and market risks to which it is subject. Management is not aware of any potential counterparty defaults.

The net trading revenues for the twelve months ended December 31, 1997, 1996 and 1995 from AIGFP's operations were $452.1 million, $369.2 million and $289.0 million, respectively.

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

The following tables provide the contractual and notional amounts of AIGTG's derivatives portfolio at December 31, 1997 and December 31, 1996. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the December 31, 1997 balances based upon the expected timing of the future cash flows.

Futures and forward contracts are contracts for delivery of foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future

11. Commitments and Contingent Liabilities (continued)

date of a specified instrument, at a specified price or yield. Risks arise as a result of movements in current market prices from contracted prices and the potential inability of counterparties to meet their obligations under the contracts. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts. As a writer of options, AIGTG generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index. At December 31, 1997, the contractual amount of AIGTG's futures, forward and option contracts approximated $412.64 billion.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at December 31, 1997 and December 31, 1996. These values do not represent the credit risk to AIGTG.

Net replacement values presented represent the net sum of estimated positive fair values after the application of legally enforceable master closeout netting agreements and collateral held. The net replacement values most closely represent the net credit risk to AIGTG or the maximum amount exposed to potential loss within a product category. At December 31, 1997, the net replacement value of AIGTG's futures, forward and option contracts and interest rate and currency swaps approximated $5.0 billion.

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at December 31, 1997 and December 31, 1996:

(in thousands)

	Remaining Life			
	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	$ 21,613,406	$ 2,931,347	$ 34,545	$ --
Forwards	$ 253,917,460	$ 12,347,787	$ 1,694,038	$ --
Over the counter purchased options	$ 39,756,245	$ 17,466,110	$ 2,932,703	$ 849,059
Over the counter sold options (a)	$ 48,398,996	$ 9,595,654	$ 964,050	$ 134,771
Notional amount:				
Interest rate swaps and forward rate agreements	$ 60,017,945	$ 14,798,198	$ 2,376,472	$ 310,035
Currency swaps	628,542	5,134,893	725,898	--
Total	$ 60,646,487	$ 19,933,091	$ 3,102,370	$ 310,035
Credit exposure:				
Futures, forwards and purchased options contracts and interest rate and currency swaps:				
Gross replacement value	$ 9,330,966	$ 1,364,417	$ 308,435	$ 15,899
Master netting arrangements	(5,277,129)	(442,284)	(70,963)	(7,935)
Collateral	(135,303)	(73,991)	(15,384)	--
Net replacement value (b)	$ 3,918,534	$ 848,142	$ 222,088	$ 7,964

(in thousands)

	Total 1997	Total 1996
Contractual amount of futures, forwards and options:		
Exchange traded futures and options	$ 24,579,298	$ 17,004,692
Forwards	$ 267,959,285	$216,775,766
Over the counter purchased options	$ 61,004,117	$ 27,377,217
Over the counter sold options (a)	$ 59,093,471	$ 31,049,529
Notional amount:		
Interest rate swaps and forward rate agreements	$ 77,502,650	$ 66,306,480
Currency swaps	6,489,333	5,853,194
Total	$ 83,991,983	$ 72,159,674

Credit exposure:		
Futures, forwards and purchased options contracts and interest rate and currency swaps:		
Gross replacement value	$ 11,019,717	$ 7,489,766
Master netting arrangements	(5,798,311)	(3,872,291)
Collateral	(224,678)	(149,347)
Net replacement value (b)	$ 4,996,728	$ 3,468,128

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

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

AIGTG independently evaluates the creditworthiness of its counterparties, taking into account credit ratings assigned by recognized statistical rating organizations. In addition, AIGTG's credit approval process involves pre-set counterparty, country and industry credit exposure limits and, for particularly credit intensive transactions, obtaining approval from AIG's Credit Risk Committee. The maximum potential loss will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions.

Notes to Financial Statements (CONTINUED)

11. Commitments and Contingent Liabilities (continued)

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At December 31, 1997 and December 31, 1996, 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	
	1997	1996
Counterparty credit quality:		
AAA	$ 752,741	$ 447,236
AA	2,503,289	1,075,713
A	1,023,650	1,133,332
BBB	342,695	518,485
Below investment grade	98,425	115,810
Not externally rated, including exchange traded futures and options*	275,928	177,552
Total	$4,996,728	$3,468,128
Counterparty breakdown by industry:		
Non-U.S. banks	$2,685,998	$1,269,399
U.S. industrials	163,484	761,634
Governmental	135,269	121,278
Non-U.S. financial service companies	260,412	186,476
Non-U.S. industrials	167,835	192,669
U.S. banks	560,388	309,154
U.S. financial service companies	747,414	449,966
Exchanges*	275,928	177,552
Total	$4,996,728	$3,468,128

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

Spot commodities sold but not yet purchased represent obligations of AIGTG to deliver spot commodities at their contracted prices and thereby create a liability to repurchase the spot commodities in the market at prevailing prices.

AIGTG limits its risks by holding offsetting positions. In addition, AIGTG monitors and controls its risk exposures through various monitoring systems which evaluate AIGTG's market and credit risks, and through credit approvals and limits. At December 31, 1997, AIGTG did not have a significant concentration of credit risk from either an individual counterparty or group of counterparties.

The net trading revenues for the twelve months ended December 31, 1997, 1996 and 1995 from AIGTG's operations were $561.8 million, $288.6 million and $317.2 million, respectively.

At December 31, 1997, AIGTG had issued and outstanding $169.8 million principal amount of letters of credit. These letters of credit were issued primarily to various exchanges.

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future obligations and liabilities of AIGFP and AIGTG arising from transactions entered into by AIGFP and AIGTG.

(e) At December 31, 1997, ILFC had committed to purchase or had secured positions for 328 aircraft deliverable from 1998 through 2006 at an estimated aggregate purchase price of $17.7 billion. ILFC will be required to find customers for any aircraft presently on order and any aircraft to be ordered, and it must arrange financing for portions of the purchase price of such equipment.

In the normal course of business, ILFC enters into interest rate swaps, swaptions and interest rate floors (derivatives transactions). The objective is to lower ILFC's overall borrowing cost and to maintain an optimal mix of variable and fixed rate interest obligations. ILFC accounts for its derivatives transactions on an accrual basis. Accrued future payments or receipts are reflected in operating income in the period incurred or earned.

Credit risk exposure arises from the potential that the counterparty may not perform under these agreements with respect to the derivatives transactions. ILFC minimizes such exposure through transacting with recognized U.S. derivative dealers rated at least A by a recognized statistical rating organization. The counterparties to the majority of the derivatives transactions are rated AAA. ILFC monitors each counterparty's assigned credit rating throughout the life of each of the derivatives transactions. ILFC currently does not require security nor is security required by its counterparties for its positions. ILFC has the right to require security under certain circumstances.

11. Commitments and Contingent Liabilities (continued)

The following table presents ILFC's notional amounts of its interest rate swaps, swaptions and interest rate floors by maturity at December 31, 1997 and 1996:

(in thousands)

	Remaining Life One Year	Two to Five Years	After Five Years	Total 1997	Total 1996
Interest Rate:					
Swaps	$ 365,806	$ 659,931	$ 261,790	$1,287,527	$1,349,234
Swaptions*	--	100,000	--	100,000	100,000
Floors	33,409	440,221	393,435	867,065	900,434
Total	$ 399,215	$1,200,152	$ 655,225	$2,254,592	$2,349,668

* Swaptions obligate ILFC to convert certain fixed note obligations to floating rate obligations if the swaption purchaser chooses to exercise. These amounts do not represent credit exposure.

AIG does not anticipate any losses in connection with the aforementioned activities that would have a material effect on its financial condition or results of operations.

(f) AIG and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. AIG does not believe that such litigation will have a material effect on its operating results and financial condition.

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter collectively referred to as environmental claims) and indemnity claims asserting injuries from asbestos. Estimation of asbestos and environmental claims loss reserves is a difficult process, as these claims, which emanate from policies written in 1984 and prior years, cannot be estimated by conventional reserving techniques. Asbestos and environmental claims development is affected by factors such as inconsistent court resolutions, the broadening of the intent of policies and scope of coverage and increasing number of new claims. AIG and other industry members have and will continue to litigate the broadening judicial interpretation of policy coverage and the liability issues. If the courts continue in the future to expand the intent of the policies and the scope of the coverage, as they have in the past, additional liabilities would emerge for amounts in excess of reserves held. This emergence cannot now be reasonably estimated, but could have a material impact on AIG's future operating results. The reserves carried for these claims as at December 31, 1997 ($2.31 billion gross; $787.3 million net) are believed to be adequate as these reserves are based on known facts and current law.

A summary of reserve activity, including estimates for applicable incurred but not reported losses and loss expenses, relating to asbestos and environmental claims separately and combined at December 31, 1997, 1996 and 1995 was as follows:

(in millions)

	1997 Gross	1997 Net	1996 Gross	1996 Net	1995 Gross	1995 Net
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 875.9	$ 172.3	$ 744.8	$ 127.9	$ 686.0	$ 130.2
Losses and loss expenses incurred	238.4	68.3	392.5	102.7	197.7	20.5
Losses and loss expenses paid	(272.2)	(45.5)	(261.4)	(58.3)	(138.9)	(22.8)
Reserve for losses and loss expenses at end of year	$ 842.1	$ 195.1	$ 875.9	$ 172.3	$ 744.8	$ 127.9
Environmental:						
Reserve for losses and loss expenses at beginning of year	$1,427.4	$ 570.6	$1,197.9	$ 379.3	$ 728.1	$ 200.1
Losses and loss expenses incurred	223.1	85.0	379.6	240.3	684.9	231.7
Losses and loss expenses paid	(183.4)	(63.4)	(150.1)	(49.0)	(215.1)	(52.5)
Reserve for losses and loss expenses at end of year	$1,467.1	$ 592.2	$1,427.4	$ 570.6	$1,197.9	$ 379.3
Combined:						
Reserve for losses and loss expenses at beginning of year	$2,303.3	$ 742.9	$1,942.7	$ 507.2	$1,414.1	$ 330.3
Losses and loss expenses incurred	461.5	153.3	772.1	343.0	882.6	252.2
Losses and loss expenses paid	(455.6)	(108.9)	(411.5)	(107.3)	(354.0)	(75.3)
Reserve for losses and loss expenses at end of year	$2,309.2	$ 787.3	$2,303.3	$ 742.9	$1,942.7	$ 507.2

12. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" (FASB 107) requires disclosure of fair value information about financial instruments, as defined therein, for which it is practicable to estimate such fair value. These financial instruments may or may not be recognized in the consolidated balance sheet. In the measurement of the fair value of certain of the financial instruments, quoted market prices were not available and other valuation techniques were utilized. These derived fair value estimates are significantly affected by the assumptions used. FASB 107 excludes certain financial instruments, including those related to insurance contracts.

The following methods and assumptions were used by AIG in estimating the fair value of the financial instruments presented:

Cash and short-term investments: The carrying amounts reported in the consolidated balance sheet for these instruments approximate fair values.

Fixed maturity securities: Fair values for fixed maturity securities carried at amortized cost or at market value were generally based upon quoted market prices. For certain fixed maturity securities for which market prices were not readily available, fair values were estimated using values obtained from independent pricing services. No other fair valuation techniques were applied to these securities as AIG believes it would have to expend excessive costs for the benefits derived.

Equity securities: Fair values for equity securities were based upon quoted market prices.

Mortgage loans on real estate, policy and collateral loans: Where practical, the fair values of loans on real estate and collateral loans were estimated using discounted cash flow calculations based upon AIG's current incremental lending rates for similar type loans. The fair values of the policy loans were not calculated as AIG believes it would have to expend excessive costs for the benefits derived.

Trading assets and trading liabilities: Fair values for trading assets and trading liabilities approximate the carrying values presented in the consolidated balance sheet.

Securities available for sale: Fair values for securities available for sale and related hedges were based on quoted market prices. For securities and related hedges for which market prices were not readily available, fair values were estimated using quoted market prices of comparable investments.

Trading securities: Fair values for trading securities were based on current market value where available. For securities for which market values were not readily available, fair values were estimated using quoted market prices of comparable investments.

Spot commodities: Fair values for spot commodities were based on current market prices.

Unrealized gains and losses on interest rate and currency swaps, options and forward transactions: Fair values for swaps, options and forward transactions were based on the use of valuation models that utilize, among other things, current interest, foreign exchange and volatility rates, as applicable.

Securities purchased (sold) under agreements to resell (repurchase), at contract value: As these securities (obligations) are short-term in nature, the contract values approximate fair values.

Other invested assets: For assets for which market prices were not readily available, fair valuation techniques were not applied as AIG believes it would have to expend excessive costs for the benefits derived.

Policyholders' contract deposits: Fair values of policyholder contract deposits were estimated using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

GIAs: Fair values of AIG's obligations under investment type agreements were estimated using discounted cash flow calculations based on interest rates currently being offered for similar agreements with maturities consistent with those remaining for the agreements being valued. Additionally, AIG follows a policy of minimizing interest rate risks associated with GIAs by entering into swap transactions.

Securities and spot commodities sold but not yet purchased: The carrying amounts for the financial instruments approximate fair values. Fair values for spot commodities sold short were based on current market prices.

Deposits due to banks and other depositors: To the extent certain amounts are not demand deposits or certificates of deposit which mature in more than one year, fair values were not calculated as AIG believes it would have to expend excessive costs for the benefits derived.

Commercial paper: The carrying amount of AIG's commercial paper borrowings approximates fair value.

Notes, bonds, loans and mortgages payable: Where practical, the fair values of these obligations were estimated using discounted cash flow calculations based upon AIG's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

12. Fair Value of Financial Instruments (continued)

The carrying values and fair values of AIG's financial instruments at December 31, 1997 and December 31, 1996 and the average fair values with respect to derivative positions during 1997 and 1996 were as follows:

(in thousands)

	1997		
	Carrying Value	Fair Value	Average Fair Value
Fixed maturities	$51,565,986	$52,692,748	$ --
Equity securities	5,348,019	5,348,019	--
Mortgage loans on real estate, policy and collateral loans	7,919,764	7,966,673	--
Securities available for sale	9,145,317	9,145,317	8,652,779
Trading securities	3,974,561	3,974,561	2,904,702
Spot commodities	459,517	459,517	450,292
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,422,290	7,422,290	7,225,716
Trading assets	6,715,486	6,715,486	5,480,796
Securities purchased under agreements to resell	4,551,191	4,551,191	--
Other invested assets	4,681,423	4,681,423	--
Short-term investments	3,332,542	3,332,542	--
Cash	86,917	86,917	--
Policyholders' contract deposits	10,323,112	10,432,709	--
Borrowings under obligations of guaranteed investment agreements	8,000,326	8,675,838	--
Securities sold under agreements to repurchase	2,706,310	2,706,310	--
Trading liabilities	5,366,421	5,366,421	4,548,789
Securities and spot commodities sold but not yet purchased	5,171,680	5,171,680	3,647,536
Unrealized loss on interest rate and currency swaps, options and forward transactions	5,979,571	5,979,571	5,270,414
Deposits due to banks and other depositors	972,423	972,423	--
Commercial paper	3,374,907	3,374,907	--
Notes, bonds, loans and mortgages payable	13,885,412	13,959,672	--

(in thousands)

	1996		
	Carrying Value	Fair Value	Average Fair Value
Fixed maturities	$48,625,226	$49,345,449	$ --
Equity securities	6,065,640	6,065,640	--
Mortgage loans on real estate, policy and collateral loans	7,876,820	7,881,348	--
Securities available for sale	9,785,909	9,785,909	6,172,883
Trading securities	2,357,812	2,357,812	2,344,717
Spot commodities	204,705	204,705	278,941
Unrealized gain on interest rate and currency swaps, options and forward transactions	6,906,012	6,906,012	6,450,376
Trading assets	3,793,433	3,793,433	3,427,781
Securities purchased under agreements to resell	1,642,591	1,642,591	--
Other invested assets	2,915,302	2,915,302	--
Short-term investments	2,008,123	2,008,123	--
Cash	58,740	58,740	--
Policyholders' contract deposits	9,803,409	9,888,685	--
Borrowings under obligations of guaranteed investment agreements	5,723,228	6,195,954	--
Securities sold under agreements to repurchase	3,039,423	3,039,423	--
Trading liabilities	3,313,508	3,313,508	3,227,531
Securities and spot commodities sold but not yet purchased	1,568,542	1,568,542	263,722
Unrealized loss on interest rate and currency swaps, options and forward transactions	5,414,433	5,414,433	4,976,258
Deposits due to banks and other depositors	1,206,374	1,206,374	--
Commercial paper	4,497,976	4,497,976	--
Notes, bonds, loans and mortgages payable	13,299,310	13,596,511	--

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

13. Stock Compensation Plans

At December 31, 1997, AIG had two types of stock-based compensation plans. One was a stock option plan; the other, an employee stock purchase plan. AIG applies APB Opinion 25 "Accounting for Stock Issued to Employees" and related

Interpretations in accounting for its plans. Accordingly, no compensation costs have been recognized for either plan.

Had compensation costs for these plans been determined consistent with the method of Statement of Financial Accounting Standards No. 123 "Accounting for Awards of Stock Based Compensation to Employees," AIG's net income and earnings per share for the years ended December 31, 1997, 1996 and 1995 would have been reduced to the pro forma amounts as follows:

(in thousands, except per share amounts)

	1997	1996	1995
Net income:			
As reported	$ 3,332,335	$ 2,897,257	$ 2,510,383
Pro forma	3,323,289	2,892,422	2,509,261
Earnings per share-diluted:			
As reported	$4.73	$4.08	$3.52
Pro forma	4.71	4.08	3.52

The fair value of stock grants included in the pro forma amounts is not necessarily indicative of future effects on net income and earnings per share.

(a) Stock Option Plan: On December 19, 1991, the AIG Board of Directors adopted a 1991 employee stock option plan (the 1991 Plan), which provided that options to purchase a maximum of 6,750,000 shares of common stock could be granted to officers and other key employees at prices not less than fair market value at the date of grant. Both the 1991 Plan, and the options with respect to 168,580 shares granted

Notes to Financial Statements (CONTINUED)

13. Stock Compensation Plans (continued)

thereunder on December 19, 1991, were approved by shareholders at the 1992 Annual Meeting. An amendment to the 1991 Plan, approved by shareholders at the 1997 Annual Meeting, increased the aggregate number of shares available for grant to 11,812,500 shares to assure that adequate shares are available for grant during the remaining term of the 1991 Plan. A second amendment to the 1991 Plan limits the maximum number of shares as to which stock options may be granted to any employee in any one year to 135,000 shares. At December 31, 1997, 6,648,316 shares were reserved for future grants under the amended 1991 Plan. As of March 18, 1992, no further options could be granted under the 1987 employee stock option plan (the 1987 Plan), but outstanding options granted under the 1987 Plan continue in force until exercise or expiration. At December 31, 1997, there were 6,206,676 shares reserved for issuance under these plans.

Under each plan, 25 percent of the options granted become exercisable on the anniversary of the date of grant in each of the four years following that grant and all options expire 10 years from the date of the grant. As of December 31, 1997, outstanding options granted with respect to 4,075,338 shares qualified for Incentive Stock Option treatment under the Economic Recovery Tax Act of 1981.

Additional information with respect to AIG's plans at December 31, 1997, and changes for the three years then ended, was as follows:

	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares Under Option:						
Outstanding at beginning of year	6,470,656	$ 39.18	6,196,069	$ 32.59	6,222,123	$ 26.87
Granted	743,550	105.78	935,100	72.37	836,512	60.22
Exercised	(935,321)	26.11	(591,827)	22.25	(775,806)	16.56
Forfeited	(72,209)	52.10	(68,686)	42.33	(86,760)	32.14
Outstanding at end of year	6,206,676	$ 48.98	6,470,656	$ 39.18	6,196,069	$ 32.59
Options exercisable at year-end	4,228,252	$ 34.51	4,354,324	$ 28.76	4,124,275	$ 24.67
Weighted average fair value per share of options granted		$ 39.31		$ 27.34		$ 21.95

Information about stock options outstanding at December 31, 1997, is summarized as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$12.09- 17.37	741,294	1.7 years	$ 15.08	741,294	$15.08
21.33- 28.67	1,089,691	3.0 years	23.70	1,089,691	23.70
35.33- 40.67	1,275,951	5.4 years	37.27	1,269,299	37.26
42.89- 53.33	804,951	7.0 years	43.65	578,522	43.47
57.58- 62.92	694,702	8.0 years	62.09	335,162	62.12
65.83- 73.75	857,137	8.9 years	73.02	214,284	73.02
82.83-106.50	742,950	9.9 years	105.78	--	--
	6,206,676			4,228,252	

The fair values of stock options granted during the years ended December 31, 1997, 1996 and 1995 were $29,226,000, $25,566,000 and $18,356,000, respectively. The fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model.

The following weighted average assumptions were used for grants in 1997, 1996 and 1995, respectively: dividend yields of 0.30 percent, 0.33 percent and 0.32 percent; expected volatilities of 20.0 percent, 20.0 percent and 20.4 percent; risk-free interest rates of 6.03 percent, 6.29 percent and 5.77 percent and expected terms of 7 years.

(b) Employee Stock Purchase Plan: AIG's 1984 employee stock purchase plan was adopted at its 1984 shareholders' meeting and became effective as of July 1, 1984. Eligible employees could receive privileges to purchase up to an aggregate of 2,953,125 shares of AIG common stock, at a price equal to 85 percent of the fair market value on the date of grant of the purchase privilege. Purchase privileges were granted annually and were limited to the number of whole shares that could be purchased by an amount equal to 5 percent of an employee's annual salary or $5,500, whichever was less.

13. Stock Compensation Plans (continued)

AIG's 1996 employee stock purchase plan was adopted at its 1996 shareholders' meeting and became effective as of July 1, 1996, replacing the 1984 plan. Eligible employees may receive privileges to purchase up to an aggregate of 1,500,000 shares of AIG common stock, at a price equal to 85 percent of the fair market value on the date of the grant of the purchase privilege. Purchase privileges are granted annually and are limited to the number of whole shares that can be purchased by an amount equal to 5 percent of an employee's annual salary or $5,500, whichever is less. Beginning with the January 1, 1998 subscription, the maximum allowable purchase limitation increased to 10 percent of an employee's annual salary or $10,000, whichever is less and the eligibility requirement was reduced to one year. In all other respects, the 1996 plan is identical to the 1984 plan.

There were 69,339 shares, 219,326 shares and 228,609 shares issued under the 1984 plan at weighted average prices of $52.76, $44.59 and $33.48 for the years ended December 31, 1997, 1996 and 1995, respectively. The excess or deficit of the proceeds over the par value or cost of the common stock issued was credited or charged to additional paid-in capital.

There were 147,085 shares issued under the 1996 plan at a weighted average price of $57.76 for the year ended December 31, 1997. The excess or deficit of the proceeds over the par value or cost of the common stock issued was credited or charged to additional paid-in capital.

As of December 31, 1997, there were 181,049 shares of common stock subscribed to at a weighted average price of $77.37 per share pursuant to grants of privileges under the 1996 plan. There were 1,171,866 shares available for the grant of future purchase privileges under the 1996 plan at December 31, 1997.

The fair values of purchase privileges granted during the years ended December 31, 1997, 1996 and 1995 were $3,625,000, $3,039,000 and $2,005,000, respectively. The weighted average fair values per share of those purchase rights granted in 1997, 1996 and 1995 were $20.02, $13.14 and $9.93, respectively. The fair value of each purchase right is estimated on the date of the subscription using the Black-Scholes model.

The following weighted average assumptions were used for grants in 1997, 1996 and 1995, respectively: dividend yields of 0.30 percent, 0.37 percent and 0.32 percent; expected volatilities of 26.0 percent, 21.9 percent and 16.9 percent; risk-free interest rates of 5.81 percent, 5.54 percent and 5.64 percent; and expected terms of 1 year.

14. Employee Benefits

(a) Employees of AIG, its subsidiaries and certain affiliated companies, including employees in foreign countries, are generally covered under various funded and insured pension plans. Eligibility for participation in the various plans is based on either completion of a specified period of continuous service or date of hire, subject to age limitation.

AIG's U.S. retirement plan is a qualified, noncontributory, defined benefit plan. All qualified employees who have attained age 21 and completed twelve months of continuous service are eligible to participate in this plan. An employee with 5 or more years of service is entitled to pension benefits beginning at normal retirement at age 65. Benefits are based upon a percentage of average final compensation multiplied by years of credited service limited to 44 years of credited service. The average final compensation is subject to certain limitations. Annual funding requirements are determined based on the "projected unit credit" cost method which attributes a pro rata portion of the total projected benefit payable at normal retirement to each year of credited service.

AIG has adopted a Supplemental Executive Retirement Program (Supplemental Plan) to provide additional retirement benefits to designated executives and key employees. Under the Supplemental Plan, the annual benefit, not to exceed 60 percent of average final compensation, accrues at a percentage of average final pay multiplied for each year of credited service reduced by any benefits from the current and any predecessor retirement plans, Social Security, if any, and from any qualified pension plan of prior employers. The Supplemental Plan also provides a benefit equal to the reduction in benefits payable under the AIG retirement plan as a result of Federal limitations on benefits payable thereunder. Currently, the Supplemental Plan is unfunded.

Eligibility for participation in the various non-U.S. retirement plans is either based on completion of a specified period of continuous service or date of hire, subject to age limitation. Where non-U.S. retirement plans are defined benefit plans, they are generally based on the employees' years of credited service and average compensation in the years preceding retirement.

Assumptions associated with the projected benefit obligation and expected long-term rate of return on plan assets at December 31, 1997 were as follows:

	Range of Non-U.S. Plans*	U.S. Plans
Discount rate	3.5-10.0%	7.0%
Salary increase rate	2.5-10.0	5.0
Expected long-term rate of return on plan assets	4.0- 9.2	9.0

* The ranges for the non-U.S. plans reflect the local socioeconomic environments in which AIG operates.

14. Employee Benefits (continued)

The following table sets forth the funded status of the various pension plans and the amounts recognized in the accompanying consolidated balance sheet as of December 31, 1997 and 1996:

(in thousands)

	1997			1996		
	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
Plan assets at fair value*	$ 159,734	$ 297,433	$ 457,167	$ 171,037	$ 230,767	$ 401,804
Actuarial present value of benefit obligations:						
Accumulated benefits earned prior to valuation date:						
Vested	234,264	206,242	440,506	240,023	155,738	395,761
Nonvested	29,414	30,833	60,247	30,222	22,222	52,444
Accumulated benefit obligation	263,678	237,075	500,753	270,245	177,960	448,205
Additional benefits based on estimated future salary levels	66,307	126,282	192,589	69,981	94,956	164,937
Projected benefit obligation	329,985	363,357	693,342	340,226	272,916	613,142
Projected benefit obligation in excess of plan assets	170,251	65,924	236,175	169,189	42,149	211,338
Unrecognized prior service cost	(14,322)	(20,827)	(35,149)	(19,288)	(17,102)	(36,390)
Unrecognized net gain (loss)	(64,770)	16,356	(48,414)	(59,897)	29,550	(30,347)
Unamortized balance of the initial transition amounts	(11,583)	(7,635)	(19,218)	(15,241)	(9,137)	(24,378)
Net amounts to be applied to future periods	(90,675)	(12,106)	(102,781)	(94,426)	3,311	(91,115)
Adjustment to reflect minimum liability	47,965	4,031	51,996	61,024	3,217	64,241
Accrued pension liability	$ 127,541	$ 57,849	$ 185,390	$ 135,787	$ 48,677	$ 184,464

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

Net pension cost for the years ended December 31, 1997, 1996 and 1995 included the following components:

(in thousands)

	1997	1996	1995
Cost of benefits earned during the period	$ 48,648	$ 47,783	$ 40,015
Interest cost on the projected benefit obligation	34,383	31,603	27,320
Actual return on all retirement plan assets	(66,769)	(41,387)	(53,904)
Net amortization and deferral of actuarial gains and losses	39,743	17,918	30,114
Amortization of the initial transition amount	3,093	3,323	3,720
Net pension expense*	$ 59,098	$ 59,240	$ 47,265

* Net pension expense included $31,323, $34,584 and $30,978 related to non-U.S. plans for 1997, 1996 and 1995, respectively.

(b) AIG sponsors a voluntary savings plan for domestic employees (a 401(k) plan), which, during the three years ended December 31, 1997, provided for salary reduction contributions by employees and matching contributions by AIG of up to 6 percent of annual salary depending on the employees' years of service.

(c) In addition to AIG's defined benefit pension plan, AIG and its subsidiaries provide a postretirement benefit program for medical care and life insurance, domestically and in certain foreign countries. Eligibility in the various plans is generally based upon completion of a specified period of eligible service and reaching a specified age. Benefits vary by geographic location.

AIG's U.S. postretirement medical and life insurance benefits are based upon the employee electing immediate retirement and having a minimum of ten years of service. Retirees and their dependents who were age 65 by May 1, 1989 participate in the medical plan at no cost. Employees who retired after May 1, 1989 and on or prior to January 1, 1993 pay the active employee premium if under age 65 and 50 percent of the active employee premium if over age 65. Retiree contributions are subject to adjustment annually. Other cost sharing features of the medical plan include deductibles, coinsurance and Medicare coordination and a lifetime maximum benefit of $1,000,000. The maximum life insurance benefit prior to age 70 is $32,500, with a maximum of $25,000 thereafter.

Effective January 1, 1993, both plans' provisions were amended. Employees who retire after January 1, 1993 are required to pay the actual cost of the medical benefits reduced by a credit which is based upon age and years of service at retirement. The life insurance benefit varies by age at retirement from $5,000 for retirement at ages 55 through 59 to $15,000 for retirement at ages 65 and over.

Assumptions associated with the accrued postretirement benefit liability at December 31, 1997 were as follows:

	Non-U.S. Plans	U.S. Plans
Discount rate	7.0-10.0%	7.0%
Medical trend rate year 1*	12.0	7.5
Medical trend rate year 3 and 9	6.0	5.5

* The Medical trend rate grades downward from years 1 through 3 domestically and years 1 through 9 for the foreign benefits. The trend rates remain level thereafter.

14. Employee Benefits (continued)

The following table sets forth the liability for the accrued postretirement benefits of the various plans, and amounts recognized in the accompanying consolidated balance sheet as of December 31, 1997 and 1996. These plans are not funded currently.

(in thousands)

	Non-U.S. Plans	U.S. Plans	Total
1997			
Accumulated postretirement benefit obligation:			
Retirees	$ 1,923	$ 49,030	$ 50,953
Fully eligible active employees	6,539	2,436	8,975
Other active employees	10,048	18,529	28,577
	18,510	69,995	88,505
Unrecognized net loss	--	(11,277)	(11,277)
Unrecognized prior service cost	--	22,132	22,132
Accrued postretirement benefit liabilities	$ 18,510	$ 80,850	$ 99,360
1996			
Accumulated postretirement benefit obligation:			
Retirees	$ 2,025	$ 44,568	$ 46,593
Fully eligible active employees	6,127	2,127	8,254
Other active employees	8,757	11,926	20,683
	16,909	58,621	75,530
Unrecognized net loss	--	(5,299)	(5,299)
Unrecognized prior service cost	--	27,287	27,287
Accrued postretirement benefit liabilities	$ 16,909	$ 80,609	$ 97,518

The net periodic postretirement costs for the years ended December 31, 1997, 1996 and 1995 included the following components:

(in thousands)

	Medical Plans	Life Insurance Plans	Total
1997			
Cost of benefits earned during the period	$ 1,617	$ 606	$ 2,223
Interest cost on accumulated postretirement benefit obligations	4,225	1,431	5,656
Amortization of prior service cost	(1,344)	(172)	(1,516)
Amortization of net actuarial losses	80	31	111
Net periodic postretirement benefit costs	$ 4,578	$ 1,896	$ 6,474
1996			
Cost of benefits earned during the period	$ 1,315	$ 574	$ 1,889
Interest cost on accumulated postretirement benefit obligations	3,992	1,307	5,299
Amortization of prior service cost	(1,344)	(172)	(1,516)
Amortization of net actuarial losses	59	22	81
Net periodic postretirement benefit costs	$ 4,022	$ 1,731	$ 5,753
1995			
Cost of benefits earned during the period	$ 1,011	$ 448	$ 1,459
Interest cost on accumulated postretirement benefit obligations	3,744	1,246	4,990
Amortization of prior service cost	(1,344)	(172)	(1,516)
Net periodic postretirement benefit costs	$ 3,411	$ 1,522	$ 4,933

Notes to Financial Statements (CONTINUED)

14. Employee Benefits (continued)

The medical trend rate assumptions have a significant effect on the amounts reported. Increasing each trend rate by 1 percent in each year would increase the accumulated postretirement benefit obligations as of December 31, 1997 by $6.0 million and the aggregate service and interest cost components of the periodic postretirement benefit costs for 1997 by $557,000.

(d) AIG has certain benefits provided to former or inactive employees who are not retirees. Certain of these benefits are insured and expensed currently; other expenses are provided for currently. Such uninsured expenses include long and short-term disability medical and life insurance continuation, short-term disability income continuation and COBRA medical subsidies. The provision for these benefits at December 31, 1997 was $5.6 million. The incremental expense was insignificant.

15. Leases

(a) AIG and its subsidiaries occupy leased space in many locations under various long-term leases and have entered into various leases covering the long-term use of data processing equipment.

At December 31, 1997, the future minimum lease payments under operating leases were as follows:

(in thousands)	
1998	$218,319
1999	152,004
2000	112,630
2001	96,075
2002	75,747
Remaining years after 2002	225,693
Total	$880,468

Rent expense approximated $240,600,000, $219,100,000 and $215,600,000 for the years ended December 31, 1997, 1996 and 1995, respectively.

(b) Minimum future rental income on noncancelable operating leases of flight equipment which have been delivered at December 31, 1997 was as follows:

(in thousands)	
1998	$1,460,145
1999	1,248,816
2000	962,415
2001	722,347
2002	552,554
Remaining years after 2002	792,066
Total	$5,738,343

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

16. Ownership and Transactions with Related Parties

(a) Ownership: The directors and officers of AIG, the directors and holders of common stock of C. V. Starr & Co., Inc. (Starr), a private holding company, The Starr Foundation, Starr International Company, Inc. (SICO), a private holding company, and Starr own or otherwise control approximately 29 percent of the voting stock of AIG. Six directors of AIG also serve as directors of Starr and SICO.

(b) Transactions with Related Parties: During the ordinary course of business, AIG and its subsidiaries pay commissions to Starr and its subsidiaries for the production and management of insurance business. There are no significant receivables from/payables to related parties at December 31, 1997. Net commission payments to Starr aggregated approximately $46,200,000 in 1997, $48,400,000 in 1996 and $42,600,000 in 1995, from which Starr is required to pay commissions due originating brokers and its operating expenses. AIG also received approximately $13,900,000 in 1997, $15,300,000 in 1996 and $14,100,000 in 1995 from Starr and paid approximately $35,000 in 1997 and $34,000 in both 1996 and 1995 to Starr in rental fees. AIG also received approximately $900,000 in 1997, $1,000,000 in 1996 and $1,500,000 in 1995 from SICO and paid approximately $1,200,000 in each of the years 1997, 1996 and 1995 to SICO as reimbursement for services rendered at cost. AIG also paid to SICO $3,900,000 in 1997, $4,400,000 in 1996 and $5,000,000 in 1995 in rental fees.

17. Segment Information

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

Parent - AIG parent is a holding company owning directly or indirectly all of the capital stock of certain insurance, insurance related and financial services companies in both the United States and abroad.

General Insurance - AIG's general insurance operations are multiple line property and casualty companies writing substantially all lines of insurance other than title insurance. The general insurance operations also include mortgage guaranty insurance operations.

Life Insurance - AIG's life insurance operations offer a broad line of individual and group life, annuity and accident and health policies.

Financial Services - AIG's financial services operations engage in diversified financial services for affiliated and non-affiliated companies. Such operations include, but are not limited to, asset management, short-term cash management and financing, premium financing, interest rate, currency, equity and commodity derivative products business, various commodities trading and market making activities, banking services and operations and leasing and remarketing of flight equipment.

17. Segment Information (continued)

The following table is a summary of the operations by major operating segments for the years ended December 31, 1997, 1996 and 1995:

	Industry Segments-1997					
(in thousands)	Parent	General Insurance	Life Insurance	Financial Services	Adjustments and Eliminations(a)	Consolidated
Revenues	$ 1,480,649(b)	$14,402,738	$12,843,294	$ 3,273,478	$ (1,397,859)	$ 30,602,300
Income before income taxes	$ 1,480,649(b)	$ 2,471,866	$ 1,571,483	$ 701,337	$ (1,526,437)	$ 4,698,898
Equity in net income of partially-owned companies	$ 55,698	$ 56,183	$ 899	$ --	$ --	$ 112,780
Depreciation expense	$ 84	$ 88,543	$ 56,356	$ 653,599	$ 74,323	$ 872,905
Capital expenditures	$ 3,545	$ 166,286	$ 345,618	$ 3,519,261(c)	$ 169,817	$ 4,204,527(c)
Identifiable assets	$25,288,425	$62,386,262	$52,103,905	$51,756,123	$(27,564,028)	$163,970,687

	Industry Segments-1996					
(in thousands)	Parent	General Insurance	Life Insurance	Financial Services	Adjustments and Eliminations(a)	Consolidated
Revenues	$ 1,148,627(b)	$13,610,598	$11,688,925	$ 2,555,477	$ (1,061,060)	$ 27,942,567
Income before income taxes	$ 1,148,627(b)	$ 2,205,567	$ 1,323,758	$ 523,906	$ (1,188,636)	$ 4,013,222
Equity in net income of partially-owned companies	$ 50,488	$ 49,799	$ 73	$ 1,240	$ 157	$ 101,757
Depreciation expense	$ 42	$ 84,933	$ 54,102	$ 592,841	$ 73,663	$ 805,581
Capital expenditures	$ 342	$ 132,955	$ 236,945	$ 3,357,506(c)	$ 167,355	$ 3,895,103(c)
Identifiable assets	$22,608,843	$58,791,735	$48,376,033	$43,861,592	$(25,207,201)	$148,431,002

	Industry Segments-1995					
(in thousands)	Parent	General Insurance	Life Insurance	Financial Services	Adjustments and Eliminations(a)	Consolidated
Revenues	$ 730,057(b)	$13,021,380	$10,335,758	$ 2,204,090	$ (677,281)	$ 25,614,004
Income before income taxes	$ 730,057(b)	$ 2,032,286	$ 1,090,605	$ 417,741	$ (804,806)	$ 3,465,883
Equity in net income of partially-owned companies	$ 38,308	$ 43,204	$ 3,150	$ --	$ 358	$ 85,020
Depreciation expense	$ --	$ 91,112	$ 49,786	$ 522,141	$ 71,521	$ 734,560
Capital expenditures	$ 141	$ 127,827	$ 53,936	$ 3,359,468(c)	$ 95,745	$ 3,637,117(c)
Identifiable assets	$20,445,762	$56,223,416	$43,280,484	$36,833,772	$(22,647,036)	$134,136,398

(a) Including other operations and other income (deductions)-net, which are not deemed to be reportable segments.
(b) Substantially dividend income from subsidiaries.
(c) Relating primarily to ILFC.

Notes to Financial Statements (CONTINUED)

17. Segment Information (continued)

(b) The following table is a summary of AIG's general insurance operations by major operating category for the years ended December 31, 1997, 1996 and 1995:

	Net Premiums					
	Written			Earned		
(in thousands)	1997	1996	1995	1997	1996	1995
Underwriting:						
Foreign	$ 4,369,989	$ 4,324,847	$ 4,202,815	$ 4,068,809	$ 4,033,210	$ 4,083,200
Commercial casualty(a)	7,041,086	6,398,039	5,895,757	6,428,763	5,853,271	5,645,281
Commercial property	485,621	490,644	452,323	408,437	480,388	403,037
Pools and associations(b)	358,275	435,127	400,951	369,294	429,565	394,088
Personal lines(c)	811,742	725,295	692,747	790,448	734,042	628,068
Mortgage guaranty	340,816	317,727	248,429	355,289	324,339	252,057
Total underwriting	$13,407,529	$12,691,679	$11,893,022	$12,421,040	$11,854,815	$11,405,731
Net investment income						
Realized capital gains						
General insurance operating income						

	Operating Income		
(in thousands)	1997	1996	1995
Underwriting:			
Foreign	$ 497,356	$ 397,965	$ 305,031
Commercial casualty(a)	148,263	338,482	306,168
Commercial property	(64,142)	(136,638)	(9,238)
Pools and associations(b)	(225,497)	(240,932)	(263,291)
Personal lines(c)	18,633	(680)	(5,961)
Mortgage guaranty	115,555	91,587	83,928
Total underwriting	490,168	449,784	416,637
Net investment income	1,853,523	1,690,798	1,547,572
Realized capital gains	128,175	64,985	68,077
General insurance operating income	$2,471,866	$2,205,567	$2,032,286

(a) Including workers' compensation and retrospectively rated risks.
(b) Including involuntary pools.
(c) Including mass marketing and specialty programs.

(c) AIG's individual life insurance and group life insurance portfolio accounted for 69 percent, 68 percent and 66 percent of AIG's consolidated life insurance operating income before realized capital gains or losses for the years ended December 31, 1997, 1996 and 1995, respectively. For those years, 92 percent, 92 percent and 94 percent, respectively, of consolidated life operating income before realized capital gains or losses was derived from foreign operations.

(d) A substantial portion of AIG's business is conducted in countries other than the United States and Canada. The following table is a summary of AIG's business by geographic segments. Allocations have been made on the basis of location of operations and assets.

	Geographic Segments-1997			
(in thousands)	Domestic(a)	Far East	Other Foreign	Consolidated
Revenues (b)	$ 14,141,330	$11,670,811	$ 4,790,159	$ 30,602,300
Income before income taxes	$ 2,015,556	$ 1,668,703	$ 1,014,639	$ 4,698,898
Identifiable assets	$105,757,551	$32,291,980	$25,921,156	$163,970,687

	Geographic Segments-1996			
(in thousands)	Domestic(a)	Far East	Other Foreign	Consolidated

Revenues (b)	$ 12,954,888	$10,690,814	$ 4,296,865	$ 27,942,567
Income before income taxes	$ 1,877,203	$ 1,521,650	$ 614,369	$ 4,013,222
Identifiable assets	$ 92,088,305	$32,222,889	$24,119,808	$148,431,002

	Geographic Segments-1995			
(in thousands)	Domestic(a)	Far East	Other Foreign	Consolidated
Revenues (b)	$ 11,841,338	$ 9,859,833	$ 3,912,833	$ 25,614,004
Income before income taxes	$ 1,698,606	$ 1,375,307	$ 391,970	$ 3,465,883
Identifiable assets	$ 84,456,853	$27,580,921	$22,098,624	$134,136,398

(a) Including general insurance operations in Canada.
(b) Revenues are derived from revenues of the general, life and financial services operations, equity in income of minority-owned insurance operations and realized capital gains attributable to the segments.

18. Summary of Quarterly Financial Information--
Unaudited

The following quarterly financial information for each of the three months ended March 31, June 30, September 30 and December 31, 1997 and 1996 is unaudited. However, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to present fairly the results of operations for such periods, have been made for a fair presentation of the results shown.

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
(in thousands, except per share amounts)	1997	1996	1997	1996	1997	1996	1997	1996
Revenues	$7,188,998	$6,576,960	$7,758,359	$6,891,748	$7,704,343	$7,116,105	$7,950,600	$7,357,754
Net income	$ 780,935	$ 671,218	$ 826,495	$ 724,368	$ 840,318	$ 731,437	$ 884,587	$ 770,234
Net income per common share:								
Basic	$ 1.11	$ 0.94	$ 1.18	$ 1.03	$ 1.19	$ 1.04	$ 1.27	$ 1.09
Diluted	1.10	0.94	1.18	1.02	1.19	1.04	1.26	1.08
Average shares outstanding:								
Basic	704,259	710,954	702,185	706,631	701,385	704,155	700,213	704,202
Diluted	707,211	713,855	705,266	709,521	704,597	707,018	703,348	707,001

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with accountants on accounting and financial disclosure within the twenty-four months ending December 31, 1997.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Except for the information provided in Part I under the heading "Directors and Executive Officers of the Registrant", this item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 11. Executive Compensation

This item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

This item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

ITEM 13. Certain Relationships and Related Transactions

This item is omitted because a definitive proxy statement which involves the election of directors will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year pursuant to Regulation 14A.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) Financial Statements and Exhibits.

1. Financial Statements and Schedules. See accompanying Index to Financial Statements.

2. Exhibits.

3--Articles of Incorporation and By-Laws.

10--Material Contracts.

11--Computation of Earnings Per Share for the Years Ended December 31, 1997, 1996, 1995, 1994 and 1993.

12--Computation of Ratios of Earnings to Fixed Charges for the Years Ended December 31, 1997, 1996, 1995, 1994 and 1993.

21--Subsidiaries of Registrant.

23--Consent of Coopers & Lybrand L.L.P.

24--Power of Attorney.

27--Financial Data Schedule.

99--Undertakings.

(b) Reports on Form 8-K.

There have been no reports on Form 8-K filed during the quarter ended December 31, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the issuer has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York and State of New York, on the 30th day of March, 1998.

AMERICAN INTERNATIONAL GROUP, INC.

By s/s M.R. Greenberg

(M. R. Greenberg, Chairman)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Annual Report on Form 10-K has been signed below by the following persons in the capacities indicated on the 30th day of March, 1998 and each of the undersigned persons, in any capacity, hereby severally constitutes M.R. Greenberg, Edward E. Matthews and Howard I. Smith and each of them, singularly, his true and lawful attorney with full power to them and each of them to sign for him, and in his name and in the capacities indicated below, this Annual Report on Form 10-K and any and all amendments thereto.

Signature	Title
s/s M.R. Greenberg (M. R. Greenberg)	Chairman and Director (Principal Executive Officer)
s/s Howard I. Smith (Howard I. Smith)	Executive Vice President, Chief Financial Officer, Comptroller and Director (Principal Financial and Accounting Officer)
s/s M. Bernard Aidinoff (M. Bernard Aidinoff)	Director
(Lloyd M. Bentsen)	Director
s/s Pei-yuan Chia (Pei-yuan Chia)	Director
s/s Marshall A. Cohen (Marshall A. Cohen)	Director
s/s Barber B. Conable, Jr. (Barber B. Conable, Jr.)	Director
s/s Martin S. Feldstein (Martin S. Feldstein)	Director

SIGNATURES- (Continued)

Signature	Title
s/s Leslie L. Gonda (Leslie L. Gonda)	Director
s/s Evan G. Greenberg (Evan G. Greenberg)	Director
s/s Carla A. Hills (Carla A. Hills)	Director
s/s Frank J. Hoenemeyer (Frank J. Hoenemeyer)	Director
s/s Edward E. Matthews (Edward E. Matthews)	Director
s/s Dean P. Phypers (Dean P. Phypers)	Director
s/s Thomas R. Tizzio (Thomas R. Tizzio)	Director
s/s Edmund S.W. Tse (Edmund S.W. Tse)	Director
(Frank G. Wisner)	Director

EXHIBIT INDEX

Exhibit Number	Description	Location
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None.
3(i)	Restated Certificate of Incorporation of AIG	Incorporated by reference from Exhibit 3(i) to AIG's Annual Report on Form 10-K for the year ended December 31, 1996.
3(ii)	By-laws of AIG	Incorporated by reference from Exhibit 3(ii) to AIG's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-8787).
4	Instruments defining the rights of security holders, including indentures	
	(a) Fiscal Agency Agreement dated as of October 1, 1984 between AIG and Citibank, N.A.	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.
	(b) Indenture dated as of July 15, 1989 between AIG and The Bank of New York	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.

Exhibit Number	Description	Location
9	Voting Trust Agreement..............................	None.
10	Material contracts*	
	(a) AIG 1969 Employee Stock Option Plan and Agreement Form	Filed as exhibit to AIG's Registration Statement (File No. 2-44043) and incorporated herein by reference.
	(b) AIG 1972 Employee Stock Option Plan.........	Filed as exhibit to AIG's Registration Statement (File No. 2-44702) and incorporated herein by reference.
	(c) AIG 1972 Employee Stock Purchase Plan.......	Filed as exhibit to AIG's Registration Statement (File No. 2-44043) and incorporated herein by reference.
	(d) AIG 1984 Employee Stock Purchase Plan.......	Filed as exhibit to AIG's Registration Statement (File No. 2-91945) and incorporated herein by reference.
	(e) AIG 1996 Employee Stock Purchase Plan.......	Filed as exhibit to AIG's Definitive Proxy Statement dated April 2, 1996 (File No. 1-8787) and incorporated herein by reference.
	(f) AIG 1977 Stock Option and Stock Appreciation Rights Plan................................	Filed as exhibit to AIG's Registration Statement (File No. 2-59317) and incorporated herein by reference.
	(g) AIG 1982 Employee Stock Option Plan.........	Filed as exhibit to AIG's Registration Statement (File No. 2-78291) and incorporated herein by reference.
	(h) AIG 1987 Employee Stock Option Plan.........	Filed as exhibit to AIG's Definitive Proxy Statement dated as of April 6, 1987 (File No. 0-4652) and incorporated herein by reference.
	(i) AIG 1991 Employee Stock Option Plan.........	Filed as exhibit to AIG's Definitive Proxy Statement dated as of April 4, 1997 (File No. 1-8787) and incorporated herein by reference.
	(j) AIRCO 1972 Employee Stock Option Plan.......	Incorporated by reference to AIG's Joint Proxy Statement and Prospectus (File No. 2-61994).
	(k) AIRCO 1977 Stock Option and Stock Appreciation Rights Plan....................	Incorporated by reference to AIG's Joint Proxy Statement and Prospectus (File No.2-61994).
	(l) Purchase Agreement between AIA and Mr. E.S.W. Tse.............................	Filed herewith.
11	Statement re computation of per share earnings.......	Filed herewith.
12	Statements re computation of ratios..................	Filed herewith.
13	Annual report to security holders....................	Not required to be filed.
18	Letter re change in accounting principles............	None.
21	Subsidiaries of the Registrant.......................	Filed herewith.
22	Published report regarding matters submitted to vote of security holders	None.

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

Exhibit Number	Description	Location
23	Consent of Coopers & Lybrand L.L.P..................	Filed herewith.
24	Power of attorney...................................	Included on the signature page hereof.
27	Financial Data Schedule..............................	Provided herewith.
99	Undertakings by the Registrant required by Item 17 of Form S-3 and Item 21 of Form S-8, deemed to be incorporated by reference into AIG's Registration Statements on Forms S-3 and S-8 (No. 2-38768, No.2-44043, No. 2-45346, No. 2-51498, No. 2-59317, No. 2-61858, No. 2-62760, No. 2-64336, No. 2-67600, No. 2-72058, No. 2-75874, No. 2-75875, No. 2-78291, No. 2-87005, No. 2-82989, No. 2-90756, No. 2-91945, No. 2-95589, No. 2- 97439, No. 33-8495, No. 33-13874, No. 33-18073, No. 33-25291, No. 33-41643, No. 33-48996, No. 33-57250, No. 33-60327, No. 33-60827, No. 33-62821, No. 333-21365 and No. 333-48639)	Filed herewith.

Exhibit 10(L)

Dated the 28th day of November 1996.

American International Assurance Company Limited
(the "Vendor")

and

Tse Sze Wing Edmund
(the "Purchaser")
and

Tse Wai Pik Kin
(the "Spouse")

and
Ada Koon Hang Tse & Elaine Koon Ming Tse
(the "Children")

- --

AGREEMENT

for

Sale and Purchase of 3,327 equal undivided 46,954th parts or shares of and in Rural Building Lot No. 687 and of and in the messuage erections and buildings erected thereon known at the date hereof as No. 9 Headland Road (previously known as No. 10 Headland Road) and No. 10 Headland Road (previously known as No. 9 Headland Road (The "Estate")) together with the exclusive right and privilege to hold use occupy and enjoy all that UNIT 10C (also known as Unit 3) on the GROUND FLOOR and the Carparks Nos. 23 and 24 of the Estate.

- --

REGISTERED at the Land

Registry by Memorial No.

on

p. Land Registrar

PHILIP K. H. WONG,
KENNEDY Y.H. WONG & CO.,
SOLICITORS & NOTARIES,
HONG KONG

Ref.: 1/56/196/61044
Doc #:NO203

THIS AGREEMENT is made the 28th day of November, One thousand nine hundred and ninety six

BETWEEN the several person(s) or corporations(s) whose respective names adreeses and descriptions are set out in Part I of the Schedule hereto (the "Vendor", the "Purchaser" the "Spouse" and the "Children").

Whereas:

A. The Vendor is the registered and beneficial owner of the property more particularly described in Part V of the Schedule hereto (the "Property").

B. The Purchaser has worked with the Vendor for 35 years and is now the President and Chief Executive Officer of the Vendor.

C. In consideration of the Purchaser's loyalty faithfulness and contributions to the Vendor, the Vendor agrees to sell the Property to the Purchaser on the terms and conditions as hereinafter appearing.

D. The Spouse is the wife and the Children are the natural children of the Purchaser and they join in this Agreement to signify their acknowledgement of the provisions of this Agreement, in particular Clause 34 hereof and their agreement to observe the conditions set out therein if those conditions apply to them at the relevant material time.

It is hereby agreed as follows:

Agreement

1. The Vendor shall sell and the Purchaser shall purchase the "Property" absolutely or (as the case may be) for the residue of the term of years created by the Crown Lease referred to in Part V of the Schedule hereto ("the Crown Lease")

subject as hereinafter provided but otherwise free from all incumbrances.

Price:

2. The purchase price for the Property is set out in Part II of the Schedule hereto ("the Price").

Deposit

3. A deposit/deposits in the amount(s) set out in Part III of the Schedule hereto ("the Deposit") is or shall be paid in manner as therein described as a deposit/deposits of the purchase money which amount(s) shall on completion be applied towards payment of the Price and the Purchaser hereby agrees that the Deposit so paid shall be released to the Vendor on the signing hereof instead of being held by Messrs. Philip K. H. Wong, Kennedy Y. H. Wong & Company, Solicitors, as stakeholders. The balance of the Price shall be paid on completion.

Completion

4. Completion shall take place at the offices of Messrs. Philip K. H. Wong, Kennedy Y. H. Wong & Company, on or before the time and date stated in Part IV of the Schedule hereto ("the Completion Date"). Completion shall take place by way of undertaking (subject to the usual Law Society Qualifications) unless either party shall serve on the other party or the other party's solicitors 3 days before the Completion Date a notice in writing requesting formal completion in which case formal completion shall take place.

Vacant Possession

5. Vacant possession of the Property shall be given to the Purchaser on completion. The Vendor hereby warrants that no Order or decision

in any manner or form has been or is deemed to have been made by the Lands Tribunal or the District Court or any Court of Record in Hong Kong during the period of two years immediately preceding the date hereof under or pursuant to Section 53 or Section 119E of the Landlord and Tenant (Consolidation) Ordinance (Cap. 7) for possession of the Property or any part thereof.

Time of the Essence

6. Time shall in every respect be of the essence of this Agreement.

Capacity

7. The Vendor shall assign the Property as BENEFICIAL OWNER.

Commencement of good title

8.(a) The title shall commence with the Crown Lease and the Vendor shall give good title to the Property in accordance with Section 13 of the Conveyancing and Property Ordinance (Cap.219) ("the Title Documents") and no requisitions or objection to title or otherwise shall be raised by the Purchaser to the Vendor's title prior to the Title Documents or to the physical condition or illegibility of any documents.

(b) The Vendor shall prove such title at his own expense and shall at the like expense make and furnish to the Purchaser such copies of any deeds and documents of title, wills and matters of public record as may be necessary to prove such title. The costs of verifying the title by inspection and examination including search fees shall be borne by the Purchaser who shall also if the Purchaser requires copies or certified copies of any documents in the Vendor's possession relating as well to the Property as to other property retained by the Vendor pay the costs of such copies or certified copies.

Requisitions

9.(a) Any requisitions or objections in respect of the title or otherwise arising out of this Agreement shall be delivered in writing to the Vendor's Solicitors within seven working days from the date of delivery of the title deeds to the Purchaser's Solicitors or (as the case may be) within seven working days from the date of reply to the requisitions of the Purchaser's Solicitors by the Vendor's Solicitors otherwise the same shall for all intents and purposes be considered as waived (in which respect time shall be of the essence of the Agreement) and the Purchaser shall be deemed for all intents and purposes to have accepted the Vendor's title to the Property if no requisitions or objection to title is made within the said respective seven working days' periods and if the Purchaser shall make and insist on any objection or requisitions in respect of the title or otherwise which the Vendor shall be unable or (on the grounds of difficulty, delay or expense or on any other reasonable ground) unwilling to remove or comply with the Vendor shall notwithstanding any previous negotiation or litigation be at liberty on giving to the Purchase or his Solicitors not less than seven days' notice in writing to annul the sale in which case, unless the objection or requisitions shall have been in the meantime withdrawn, the sale shall at the expiration of the notice be annulled the Purchaser being in that event entitled to a return of the Deposit forthwith but without interest, costs or compensation and the Purchaser shall return to the Vendor all title deeds, documents and any other papers furnished to the Purchaser or his solicitors by or on behalf of the Vendor in connection with the sale and purchase hereunder.

(b) Notwithstanding anything contained in Section 13 of the Conveyancing and Property Ordinance (Cap.219) or herein contained to the contrary it is hereby expressly agreed that as obtaining certified copy(ies) of title deeds and documents from the Land Registry or the appropriate New Territories Land Registry takes some time, in case that the Purchaser shall require additional title deeds or documents not in the possession of the Vendor (hereinafter called the "Missing Documents") to prove such title, the Purchaser shall, against the Vendor's or his Solicitors' undertaking to produce certified copy(ies) or original (if applicable) thereof within 7 days of the Vendors' Solicitors receiving the same from the Land Registry or the appropriate New Territories Land Registry (as the case may be) or other relevant parties, accept for the purpose of approving title of the Property, copy(ies) of the Missing Documents obtained from the records of the Land Registry or the appropriate New Territories Land Registry (as the case may be) or other relevant parties and the seven-working-day limit for raising requisitions or objection insofar as they/it relate(s) to the Missing Documents shall run from the date of receipt of the said copy(ies) of the

Missing Documents by the Purchaser and the failure of the Vendor to furnish certified copy(ies) or original (if applicable) of the Missing Documents to the Purchaser on the Completion Date shall not by itself be a ground for delay or refusal of completion by the Purchaser.

Deed of Mutual Covenant and Management Agreement

10. On Completion of the sale and purchase the Purchaser Mutual shall EITHER enter into a Deed of Mutual Covenant and Management Agreement relating to the Estate to define their respective rights and obligations of and in the Estate and to make provision for the management of the Estate OR at the Vendor's option accept the Assignment of the said premises from the Vendor subject to and with the benefit of a Deed of Mutual Covenant and Management Agreement entered into by the Vendor with another purchaser or purchasers in respect of the Estate. The draft of such Deed of Mutual Covenant and Management Agreement ("the Deed of Mutual Covenant") shall be provided to the Purchaser/ his solicitors before the Completion of the Sale and Purchase.

Insurance

11.(a) Immediately after the signing of the Agreement, the Property shall as between the Vendor and the Purchaser be at the Purchaser's risk.

(b) The Vendor does not warrant that any or any adequate policy of insurance exists relating to the Property or, is any such policy exists, that it will be renewed on expiration.

(c) The Purchaser has also been advised that it is difficult for the Vendor to transfer the insurance policy (if any) on the Property or the benefit thereof to the Purchaser and the Purchaser is advised to take out proper insurance coverage on the Property for his own protection and benefit.

12. On the payment of the residue of the Price in manner provided herein (or where the parties have agreed on any applicable undertakings following such payment as aforesaid and in compliance with the applicable undertakings), the Vendor as beneficial owner and all other necessary parties (if any) will execute a proper Assignment or other assurance of the Property sold to the Purchaser in favour of the Purchaser personally subject as herein provided but otherwise free from incumbrances and thereafter deliver the same to the Purchaser. The Purchaser shall not sub-sell the Property nor nominate another party to take up the Assignment.

Legal costs and Expenses

13. Each party shall pay his own solicitors' costs and expenses for incidental to the preparation, execution and registration of this Agreement and the subsequent Assignment.

Agency

14.(a) Except as herein otherwise stated all moneys paid hereunder by the Purchaser to the Vendor's solicitors as deposit or balance of purchase price shall be deemed to have been received by them as the Vendor's agents.

(b) The Vendor declares that Messrs. Philip K. H. Wong, Kennedy Y. H. Wong & Company are the Vendor's agents for the purposes of receiving all monies payable to the Vendor pursuant to this Agreement including the balance of the purchase money payable upon completion.

(c) The Vendor further declares that the payment to such agents of any deposit, installments of the purchase monies (if any) and the balance thereof shall be a full and sufficient discharge of the Purchaser's obligations hereunder.

(d) The Vendor may revoke the authority of such agents and appoint other solicitors as agents in their place. No such revocation shall be valid unless it:

(i) is in writing addressed to the Purchaser; and

(ii) is delivered to the Purchaser care of Messrs. T. S. Tong & Co., his solicitors, at least seven clear days prior to completion; and

(iii) specifically identifies this Agreement.

Stamp duty, etc.

15. The stamp duty and land registration fees payable on this Agreement and the subsequent Assignment made pursuant to this Agreement and the plan fees for the plans annexed or to be annexed to this Agreement and the Assignment shall be borne by the Purchaser absolutely. The Purchaser shall submit this Agreement to the Collector of Stamp Revenue for adjudication of stamp duty and the adjudication fee shall be borne and paid by the Purchaser absolutely. In the event of the consideration stated in the Assignment being not accepted by the Collector of Stamp Revenue as representing the true value of the Property hereby agreed to be sold and purchased the excess stamp duty being charged in accordance with his valuation of the Property shall also be paid by the Purchaser and the Purchaser shall keep the Vendor fully indemnified in respect thereof. The provisions of the Clause shall survive completion of the sale and purchase hereunder.

16. Then parties hereto hereby declare that they fully understand and acknowledge that the date referred to in Clause 2(A) to Part VI of the Schedule hereto will be the date upon which the valuation of the Property for stamp duty purpose under the Stamp Duty (Amendment) Ordinance 1992 is to be made. Without prejudice to the generality of the information as set out in Part VI of the Schedule hereto, no warranty or representation is or is deemed to be given by the Vendor as to any matters stated in item 1 of the said part VI of the Schedule hereto and the Purchaser is hereby advised to make such investigation and inquiry as he sees fit.

Withdrawal of warranty representation

17. This Agreement comprises all the terms agreed between the parties hereto and no warranties or representations express or implied are or have been made or are given by the Vendor or by any person on his behalf relating to the Property or the user thereof or the possibility of any redevelopment thereof or its redevelopment potential prior to the signing hereof and if any such warranty or representation express or implied has been made the same is withdrawn or deemed to have been withdrawn immediately before the parties entered into this Agreement.

Land resumption

18. The Vendor hereby declares that the Vendor has not received any notice under the Crown Land Resumption Ordinance (Cap.124) or the Mass Transit Railway (Land Resumption and Related Provisions) Ordinance (Cap.276) or any notice from any government or other competent authority subsisting at the date hereof requiring the Vendor to demolish or reinstate any part of the Property and that he has no actual

knowledge whatsoever whether the Property is included in or affected by any lay-out plans (draft or approved) under the Town Planning Ordinance (Cap.131). The Vendor hereby undertakes to notify the Purchaser forthwith upon receipt of any of the aforesaid notices (if any). The Purchaser shall be solely responsible for making his own inquiry and investigation regarding any provisions or redevelopment restrictions affecting the Property. The Vendor shall not be liable for any loss or damage which the Purchaser may incur or suffer as a result of the Property becoming affected or being made subject to the provisions of any Ordinance and the Purchaser shall take the Property at his own risks and shall nevertheless complete the purchase of the Property.

No Warranty as to dimension boundary etc.

19. The respective positions measurements (if any) and boundaries stated and shown on any plan referred to or furnished with this Agreement are believed but not warranted by the Vendor to be correct. No discrepancy or inaccuracy or error misstatement misdescription or omission herein or in any plan referred to or furnished with or any statement made in the course of the negotiations leading to this Agreement shall invalidate this Agreement, annul the sale nor entitle the Purchaser to be discharged from the purchase hereunder nor shall any compensation be allowed in respect thereof.

Inspection

20. Notwithstanding anything to the contrary herein, the Purchaser hereby expressly declares that he has duly inspected the Property prior to the signing of this Agreement and is fully aware that he is purchasing the Property in its present state

and user thereof and shall not make any objection or raise any requisition thereto or in connection therewith. No warranty is given by the Vendor on any of the following matters, namely:

(a) the physical state and condition quality or fitness of the fixtures fittings and finishes or the installations and appliances (if any) incorporated in the Property or in the Estate:

(b) the physical state and condition of the Property and the Estate;

(c) the permitted user of the Property; and

(d) the redevelopment potential of the Property.

21.(a) Should the Purchaser for any cause (other than the default of the Vendor) fail to complete the purchase herein in accordance with the terms and conditions herein contained the Vendor may (without being obliged to tender an Assignment to the Purchaser) forthwith determine this Agreement by giving notice of termination in writing to the Purchaser or his Solicitors to such effect and the Vendor shall thereupon be entitled to re-enter upon the Property and repossess the same if possession shall have been given to the Purchaser free from any right or interest of the Purchaser therein and the Vendor shall be entitled to forfeit the Deposit. Upon determination of this Agreement the Vendor may either retain the Property, the subject of this Agreement or any part or parts thereof or resell the same either by public auction or by private contract or partly by one and partly by the other subject to such conditions and stipulations as to title or otherwise as the Vendor may think fit and the Vendor shall be entitled to recover from the Purchaser any deficiency in price which may result on and all expenses incurred in such resale and to retain any excess of the consideration under any such resale over the Price. It is hereby further agreed that the Vendor shall also be entitled to recover from the Purchaser such other damages and/or losses (if any) as the Vendor may sustain by reason of such failure on the part of the Purchaser. On the exercise of the Vendor's right to determine this Agreement as aforesaid the Vendor shall have the right, if this Agreement shall have been registered at the Land Registry or any New Territories Land Registry, to register at the Land Registry or the relevant New Territories Land Registry an instrument signed by the Vendor alone evidencing determination as aforesaid of the sale of the Property. This Clause shall not preclude or be deemed to preclude the Vendor from taking other steps or remedies to enforce the Vendor's rights under this Agreement or otherwise and shall not prevent the Vendor from recovering any deficiency in the price and expenses incurred in the resale and such other damages, and/or losses (if any) suffered by him by reason of the Purchaser's failure.

(b) If the Vendor shall (for any cause save as herein provided) fail to complete the sale of the Property in accordance with the terms and conditions hereof then the Deposit paid by the Purchaser hereunder shall be forthwith returned to the Purchaser who shall also be entitled to recover from the Vendor such damages (if any), in addition to the return of the Deposit, as the Purchaser may sustain by reason of such failure on the part of the Vendor and it shall not be necessary for the Purchaser to enter an Assignment to the Vendor for execution before taking proceedings to enforce specific performance of this Agreement or for damages for breach of this Agreement.

Implied covenants

22. There are incorporated into this Agreement as if they were herein written the covenants and the conditions respectively on the part of the Vendor and the Purchaser set out in Part A of the Second Schedule to the Conveyancing and Property Ordinance (Cap.219) unless they are inconsistent with the provisions herein in which event the provisions herein shall prevail.

Interpretation

23. Where two or more persons are comprised in any of the expressions "the Vendor" and/or "the Purchaser" the agreements herein contained shall be deemed to be made by such persons jointly and severally.

24. Notwithstanding anything herein provided, if the completion date for the sale and purchase of the Property and/or any of the dates(s) stipulated for payment herein shall fall on a day which is not a business day (defined as a day on which licensed banks are open for business in Hong Kong) or shall fall on a day on which typhoon signal No. 8 or above is hoisted in Hong Kong at any time between 9:00 am and 4:00 pm, such date or dates for payment or the Completion Date (as the case may be) shall automatically be postponed to the next business day or such next succeeding business day on which no typhoon signal No. 8 or above is hoisted between the aforementioned hours (as the case may be). If completion is stipulated to take place on or before a certain date but no time of the day is expressly stipulated, the sale and purchase shall be completed between the hours of 9:00 am and 5:00 pm on or before the completion date and if such date shall fall on a Saturday then between the hours of 9:00 am and 1:00 pm.

Gender clause

25. Unless the context otherwise requires, words herein importing the masculine feminine and neuter genders shall include the others of them and words importing the singular shall include the plural and vice versa.

Marginal notes

26. The marginal notes herein are inserted for convenience and reference only, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof and do not form part of this Agreement.

27. Notwithstanding anything hereinbefore contained the parties hereto further agree as follows:

(i) In respect of each payment of purchase price or any part thereof required to be made hereunder, the party making such payment ("the Payer") shall deliver to the party to whom such payment is to be made ("the Payee") on the date on which such payment is required to be made hereunder a cashier order issued by a licensed bank in Hong Kong or a cheque of the Purchaser's solicitors in favour of the payee for the relevant amount.

(ii) Where the purchase price or any part thereof is required to be applied by the Payee to discharge an existing mortgage, charge or incumbrance, or to pay any person(s) who will be a party to the assignment on completion of the sale and purchase herein, the Payee or the Payee's solicitors shall be entitled, by giving the Payer or the Payer's solicitors prior notice in writing, to require the Payer to split such payment and deliver to the Payee's solicitors one or more cashier order(s) or one or more cheques of

Purchaser's solicitors issued in favour of the person(s) or party(ies) entitled to such payment(s) and a separate cashier order or cheque of the Purchaser's solicitors in favour of the Payee for the balance. The provisions of paragraph (i) above shall apply to such cashier orders or cheques of the Purchaser's solicitors.

(iii) The Payer shall not be deemed to have discharged the obligations to make payment hereunder unless in making such payment, the Payer also complies with the provisions of this Clause.

28.(a) The Vendor shall also on completion deliver all those fitting and fixtures which are presently located or installed in the Property ("the Fitting and Fixture") to the Purchaser. The Vendor does not give any warranty as to the quality condition or otherwise of the Fitting and Fixture at the date hereof or one Completion, and the Purchaser shall take them in the state as they are at the date of Completion. The Vendor hereby warrants that he has good right and title to sell the Fitting and Fixture and that none of the Fitting and Fixture is subject to any charge, lien, hire-purchase agreement or any other incumbrances whatsoever.

(b) For the avoidance of doubt it is hereby expressly agreed between the parties hereto that failure by the Vendor to deliver the Fitting and Fixture or any part thereof does not entitle the Purchaser to rescind this Agreement and the Purchaser must complete the sale purchase hereunder.

29.(a) Without affecting the generality of other clauses of the Agreement, the Vendor declares and warrants that the Vendor is the sole legal and beneficial owner of the Property and there is no other person or occupier having any beneficial interest in the Property and that the Vendor agrees to allow the Purchaser to inspect the Property at the time convenient to both the Vendor and the Purchaser on the completion date but in any event at least one hour earlier that the time or deadline for completion as set out in other Clauses hereof.

(b) The Vendor has been advised by the Vendor's Solicitors to expressly inform the Vendor's Solicitors or the Purchaser if there are occupiers in the Property having any beneficial interest in the Property.

(c) The Purchaser has been advised by the Purchaser's Solicitors that the Purchaser should make his own inquiry with the Vendor or occupiers (if any) of the Property to verify the declaration and warranty prior to completion and to inspect the Property on the completion date as mentioned in Sub-clause (a) above.

(d) In the event of any third party claiming a beneficial interest to the Property, whether legal or equitable, whether by issuing a writ of summons or by registering his beneficial interest in the Land Registry against the Property, on or before Completion the Vendor shall return the deposit paid herein to the Purchaser and without prejudice to the Purchaser's right to claim against the Vendor for all losses and damages sustained by the Purchaser by reason of the Vendor's failure and or inability to complete the sale in accordance with the terms hereof and it shall not be necessary for the Purchaser to tender an Assignment to the Vendor for execution.

30. The Vendor and the Purchaser hereby warrants and represents to and

undertakes with the other that the information specified in Section 29B(5) of Stamp Duty (Amendment) Ordinance 1992 as contained herein are in all respects accurate.

31. It is hereby certified that the transaction hereby effected does not form part of a larger transaction or of a series of transactions in respect of which the amount or value or the aggregate amount or value of the consideration exceeds HK$3,500,000.00.

32. Subject to the provisions herein contained, the Purchaser shall be entitled to sell or otherwise dispose of the Property. The Purchaser shall also be entitled to let licence mortgage or charge the Property provided that such letting, licensing, mortgage or charge shall only be done by the Purchaser with the prior written consent of the Vendor and in strict compliance with any condition imposed by the Vendor in connection therewith and Provided Always that such consent shall not be unreasonably withheld and such condition imposed shall not be unreasonable.

33. In the event that the Purchaser shall cease to work for the Vendor for any reason other than early retirement approved by the Vendor, death or disability before the normal retirement age set by the Vendor, that is to say, the age of 65 ("the Normal Retirement Age"), the Purchaser shall as beneficial owner sell and the Vendor shall purchase the Property free from any encumbrances and with vacant possession at a price equivalent to the aggregate total of the following:

(a) the Price set out in part II of the Schedule hereto;

(b) interest at the rate of 2% over the prime rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited calculated from the date of completion of the sale and purchase hereof up to the date of completion of such repurchase by the Vendor; and

(c) the amortized value of any capital improvements the Purchaser has then made to the Property,

and the sale and purchase shall be completed within ninety days from the date of the Purchaser's cessation to work for the Vendor. In the event that there shall be any disagreement as to the said amortized value of capital improvements, the same shall be referred to an independent surveyor to be specified by the Vendor and the opinion of such independent surveyor as to the amortized value shall be final and conclusive and binding on the parties hereto. The fees and disbursements charged by the independent surveyor so appointed pursuant to this Clause shall be borne and paid by the Purchaser absolutely but all the stamp duty arising from the sale and purchase pursuant to this Clause shall be borne and paid by the Vendor absolutely.

34. Save such circumstances as provided in Clause 33 hereof, in the event of the Purchaser (which expression shall for the purpose of this Clause where the context so permits include his executors, administrators, heirs, devises, and persons entitled to his estate under the law of intestacy) wishes to sell or otherwise dispose of the Property at any time hereafter, the Purchaser shall offer to sell or dispose of the same to the Vendor free from the encumbrances and with vacant possession at the then current market value of the Property in which event the Vendor shall within

thirty days upon receipt of the Purchaser's written notification of his intention to sell or to dispose of the Property give written notice to the Purchaser or his duly authorized legal representative indicating whether the Vendor wished to repurchase the same on conditions as set out in this Clause, and in default of the Vendor doing so as aforesaid, the Vendor shall for all intents and purposes be deemed to have waived and/or given up and/or relinquished all or any right to repurchase the Property which the Vendor may have by virtue of the provisions herein contained or otherwise. In the event that there shall be any dispute as to the then current market value of the property for the purpose aforesaid, it shall be conclusively determined by an independent valuer or surveyor to be agree on the by the Vendor and the Purchaser and in default of such agreement a surveyor to be appointed by the Chairman of The Royal Institution of Chartered Surveyors (Hong Kong Branch) or in default of such appointment by the President of the Hong Kong Institute of Surveyor or equivalent professional body provided always that the cost and disbursement of such independent valuer or surveyor shall be borne and paid by the Purchaser solely. In the event that the Vendor validly exercised its right to repurchase the Property in accordance with the provisions aforesaid , the Vendor and the Purchaser shall within seven days of the determination by the independent valuer or surveyor of the then current market value of the Property or within seven days of the receipt by the Purchaser or his duly authorized legal representative of the Vendor's written notice that it wishes to repurchase the Property on the conditions as aforesaid, whichever is later, enter into a binding agreement to re-convey the Property to the Vendor within 30 days from the date of the agreement and such agreement for sale and purchase shall as far as possible contain the terms and conditions in the form of those as set out in Clauses 1 to 31 and for the avoidance of doubt the Purchaser shall be at liberty to choose any firm of solicitors to represent him in the sale.

35. For avoidance of doubts, the Purchaser shall be entitled to devise the Property to the Spouse and the Children or any of them but subject nevertheless to the conditions provided in Clause 34 hereof.

36. The Spouse and the Children hereby jointly and severally agree to join in this Agreement and confirm acknowledge and declare that the conditions set out in Clause 34 hereof shall be binding on each and all of them in the event that the Property shall be vested in them or any of them under the will of the Purchaser or under the laws of intestacy upon the Purchaser's death.

37. The Purchaser shall at all times keep the Property and the fittings and fixtures therein in good repair and condition and at all times observe and comply with any provisions in the Deed of Mutual Covenant and the Crown Lease and duly and punctually pay all rates, management fee and other outgoings payable in respect of the Property.

38. The Purchaser shall until the extinguishment of all possibilities for the Vendor to be entitled to purchase the Property in accordance with the provisions

hereof or to the right of the first refusal to purchase the Property in accordance with the provisions contained herein effect and maintain insurance of the Property against loss or damage by fire or explosion or such other risks as the Vendor may require in its full reinstatement value with some reputable insurance company as the Vendor shall first approve of in writing and shall duly and punctually pay all premia or sums of money necessary for such purpose and will not do or cause or suffer anything to be done whereby such policy or policies may become void or voidable and in the event of loss or damage to the Property the Vendor shall use the proceed from insurance to re-build or repair the Property and shall reinstate to its original state and if any of the obligations under this Clause are not performed by the Purchaser, the Vendor shall be at liberty to arrange for any of such obligations to be performed at the cost and expense of the Purchaser and the Purchaser shall forthwith fully indemnify the Vendor and keep the Vendor so indemnified for all such cost and expense.

39. The Vendor hereby agrees and undertakes that in the event of the Vendor electing not to exercise the right to re-purchase or otherwise refuse to purchase the Property from the Purchaser pursuant to Clauses 34 hereof, the Vendor shall at the request of the Purchaser furnish forthwith to the Purchaser at the Vendor's costs and expenses such document(s) and/or proof of is refusal or lapse of the first right of refusal in relation to the re-purchase of the Property by the Vendor pursuant to Clauses 34 hereof.

40. In this Agreement, the expression "the Purchaser" shall include the person

named in part I of the Schedule hereto and where the context admits his personal representative(s) and "the Vendor" shall include the corporation named in Part I of the Schedule hereto and where the context admits also its successors and assigns.

THE SCHEDULE ABOVE REFERRED TO

PART I

(The Vendor the Purchaser the Spouse and the Children)

The Vendor: American International Assurance company Limited (Company Registration No. 2047(INS) and business Registration No. 00003901-000) whose registered office is situate at AIA Building, 1 Stubbs Road, Hong Kong.

The Purchaser: Mr. Tse Sze Wing Edmund (holder of Hong Kong Identity Card No. B400094(9)) of Flat 10C, 10 Headland Road, Hong Kong.

The Spouse: Tse Wai Pik Kin (holder of Hong Kong Identity Card No. B245249(4)) of Flat 10C, No. 10 Headland Road, Hong Kong.

The Children: Tse Koon Hang Ada (holder of Hong Kong Identity Card No. G248570(1)) and Tse Koon Ming Elaine (holder of Hong Kong Identity Card No. G447810(9)) of Flat 10C, No. 10 Headland Road, Hong Kong.

PART II

(the Price - Clause 2)

Price: DOLLARS TWO MILLION NINE HUNDRED AND TWO THOUSAND EIGHT HUNDRED AND EIGHTEEN (HK$2,902,818.00) Hong Kong Currency.

PART III

(the Deposit - Clause 3)

Amount of Deposit/Further Deposits	Date of Payment
Deposit: HK$290,281.80	on the signing hereof.

PART IV

(the Completion date - Clause 4)

Completion Date: within one month from the signing hereof, that is on or before

PART V

(the Property - Recital A)

1.(a) Description, Address, Lot Number, Sections and Undivided Shares etc.: ALL THOSE 3,327 equal undivided 46,954th parts of shares of and in ALL THOSE pieces or parcels of ground situate lying and being on Hong Kong Island and registered in the Land Registry as Rural Building Lot Nos.688 and 687 ("the Land") And of and in the messuage erections and buildings erected thereon known at the date hereof as No. 9 Headland Road (previously known as No. 10 Headland Road) and No. 10 Headland Road (previously known as No. 9 Headland Road) ("the Estate") TOGETHER with the exclusive right and privilege to hold use occupy and enjoy ALL THAT UNIT 10C (also known as Unit 3) on the GROUND FLOOR and the FIRST FLOOR and the Carparks Nos.23 and 24 of the Estate which said Units and the Carparks are shown on the Plan annexed hereto and thereon coloured Pink.

(b) Easements and other appurtenant rights, if any: Together with such rights, rights of way, easements and other appurtenant rights as are more particularly described in an Assignment registered in the Land Registry by Memorial No. 236232 ("the said Assignment").

(c) Exceptions and reservations, etc,:

Subject to such rights, rights of way, exceptions and reservations as are more particularly described in the said Assignment.

2.A The Crown Lease

(a) Date: 28th January 1955

(b) Parties: Queen Elizabeth II of the one part and American International Underwriters, Limited of the other part.

(c) Term: 75 years commencing from 5th July 1947 with right of renewal for one further term of 75 years.

(d) Lot No.: Rural Building Lot No. 687

(e) Variation: as varied by a Deed of Variation of Crown Lease dated 10th October 1983 and registered in the Land Registry by Memorial No. 2494257.

B Crown Lease:

(a) Date: 28th January 1955.

(b) Parties: Queen Elizabeth II of the one part and American International Assurance Company, Limited of the other part.

(c) Terms: 75 years from 5th July 1947 with a right of renewal for one further term of 75 years.

(d) Lot No.: Rural Building Lot No. 688

(e) Variation: as varied and modified by a Deed of Variation of Crown Lease dated 10th October 1983 and registered in the Land Registry by Memorial No. 2494258.

PART VI

The following additional information are provided for the purposes of Section 29B(1) of Stamp Duty (Amendment) Ordinance 1992 ("the Ordinance"):

1. The Property is a residential property within the meaning of Section 29A(1) of the Ordinance.

2.(A) The date of the preceding unwritten sale agreement or agreement for sale made between the same parties on same terms is _____________________.

(B) Amount or value of any other consideration (excluding legal expenses): ____

i) Estate agent commission payable by the Vendor.

(a) Amount HK$: Nil

(b) Name of the Agent: not applicable

(c) Address of the Agent: not applicable

(d) Identification No.: not applicable

or

(e) Business Registration No: not applicable

ii) Estate agent commission payable by the Purchaser.

(a) Amount HK$: Nil

(b) Name of the Agent: not applicable

(c) Address of the Agent: not applicable

(d) Identification No. : not applicable

or

(c) Business Registration No.: not applicable

iii) Other consideration payable by the Vendor.

(a) Amount HK$: Nil

(b) Relates to: not applicable

(c) The Recipient: not applicable

(d) Address: not applicable

(e) Identification No.: not applicable

or

(f) Business Registration No.: not applicable

(iv) Other consideration payable by the Purchaser.

(a) Amount HK$: Nil

(b) Relates to: not applicable

(c) The Recipient: not applicable

(d) Address: not applicable

(e) Identification No.: not applicable

or

(f) Business Registration No.: not applicable

SEALED with the Common Seal of The Vendor	)	
the Vendor and SIGNED by G.R.S. Crichton (I.D. Card XD520592) in the presence of:	)	/s/ G.R.S. Crichton [SEAL]

/s/[Illegible]

SIGNED SEALED DELIVERED by the Purchaser (Holder of Hong Kong Identity Card No. B400094(9)	)	/s/ Tse Sze Wing Edmund

in the presence of:

/s/ Gerald TO

GERALD TO

Solicitor

Hong Kong

SIGNED SEALED DELIVERED by	)	
the Spouse	)	
(Holder of Hong Kong	)	/s/ Tse Wai Pik Kin
Identity Card No. B245249(4)	)	
in the presence of:	)	

/s/ Gerald TO

GERALD TO

Solicitor

Hong Kong

SIGNED SEALED DELIVERED by	)	
the Children, Tse Koon	)	
Hang Ada (Holder of Hong	)	/s/ Ada Koon Hang Tse
Kong Identity Card No.	)	
G248570(1)) and Tse Koon	)	
Ming Elaine (Holder of Hong	)	/s/ Elaine Koon Ming Tse
Kong Identity Card No.	)	
G447810(9)	)	

in the presence of:

/s/ Gerald TO

GERALD TO

Solicitor

Hong Kong

RECEIVED the day and year first above written of and from the Purchaser the above-mentioned deposit of HK$290,281.80.

/s/ G.R.S. Crichton
----
the Vendor

CLARIFICATION OF AGREEMENT

Clarification of Agreement, dated November 25, 1996 (the "Agreement"), among American International Assurance Company, Limited, Tse Sze Wing Edmund, Tse Wai Pik Kin, Ada Koon Hang Tse and Elaine Koon Ming Tse.

This letter confirms our understanding that Purchaser may not sell or otherwise dispose of the Property pursuant to Paragraph 34 of the Agreement until the Purchaser ceases to work for Vendor as a result of retirement at normal retirement age, an early retirement approved by Vendor, death or disability before normal retirement age. All capitalized and undefined terms used herein have the meanings specified in the Agreement. Please acknowledge this clarification by signing below.

Dated: March 19, 1998

American International Assurance
Company, Limited

By:/s/ G.R.S. Crichton
Name: G.R.S. Crichton
Title: Senior Vice President and General Counsel

/s/ Tse Sze Wing Edmund
- --------------------------
Tse Sze Wing Edmund

/s/ Tse Wai Pik Kin
- --------------------------
Tse Wai Pik Kin

/s/ Ada Koon Hang Tse
- --------------------------
Ada Koon Hang Tse

/s/ Elaine Koon Ming Tse
- --------------------------
Elaine Koon Ming Tse

Exhibit 11

Computation of Earnings Per Share
American International Group, Inc. and Subsidiaries

(in thousands, except per share amounts)

Years Ended December 31,	1997(b)	1996(a)	1995(a)	1994(a)	1993(a)
Numerator:					
Income before cumulative effect of accounting changes	$ 3,332,335	$ 2,897,257	$ 2,510,383	$ 2,175,515	$ 1,918,078
Cumulative effect of accounting changes, net of tax					
Minority-owned insurance operations	--	--	--	--	20,695
Preferred stock dividend	--	--	--	--	(1,043)
Net income applicable to common stock	$ 3,332,335	$ 2,897,257	$ 2,510,383	$ 2,175,515	$ 1,937,730
Denominator:					
Average outstanding shares used in the computation of per share earnings:					
Common stock issued	759,124	759,126	759,128	759,130	759,134
Common stock in treasury	(57,194)	(52,558)	(48,095)	(46,811)	(44,846)
Average outstanding shares-- basic	701,930	706,568	711,033	712,319	714,288
Stock options (treasury stock method)	3,025	2,716	2,452	2,074	2,291
Stock purchase plan	29	32	27	36	24
Average outstanding shares-- diluted	704,984	709,316	713,512	714,429	716,603
Earnings per share:					
Basic					
Income before cumulative effect of accounting changes	$ 4.75	$ 4.10	$ 3.53	$ 3.05	$ 2.68
Cumulative effect of accounting changes, net of tax					
Minority-owned insurance operations	--	--	--	--	0.03
Basic	$ 4.75	$ 4.10	$ 3.53	$ 3.05	$ 2.71
Diluted					
Income before cumulative effect of accounting changes	$ 4.73	$ 4.08	$ 3.52	$ 3.05	$ 2.67
Cumulative effect of accounting changes, net of tax					
Minority-owned insurance operations	--	--	--	--	0.03
Diluted	$ 4.73	$ 4.08	$ 3.52	$ 3.05	$ 2.70

(a) Share information reflects common stock splits in the form of 50 percent common stock dividends paid July 27, 1997 and July 28, 1995.

(b) The number of common shares outstanding as of December 31, 1997 was 699,518,281. The number of common shares that would have been outstanding as of December 31, 1997 assuming the exercise or issuance of all dilutive potential common shares outstanding is 702,981,657.

Exhibit 12

Computation of Ratios of
Earnings to Fixed Charges   American International Group, Inc. and Subsidiaries

(in thousands, except ratios)

Years Ended December 31,	1997	1996	1995	1994	1993
Income before income taxes and cumulative effect of accounting changes	$4,698,898	$4,013,222	$3,465,883	$2,951,979	$2,601,081
Less-Equity income of less than 50% owned persons	119,696	121,347	91,444	54,091	43,966
Add-Dividends from less than 50% owned persons	29,978	13,431	6,515	4,660	4,349
	4,609,180	3,905,306	3,380,954	2,902,548	2,561,464
Add-Fixed charges	1,834,054	1,614,703	1,483,752	1,404,633	1,213,487
Less-Capitalized interest	49,771	50,352	50,746	46,023	42,699
Income before income taxes, cumulative effect of accounting changes and fixed charges	$6,393,463	$5,469,657	$4,813,960	$4,261,158	$3,732,252
Fixed charges:					
Interest costs	$1,753,854	$1,541,670	$1,411,886	$1,335,300	$1,146,654
Rental expense*	80,200	73,033	71,866	69,333	66,833
Total fixed charges	$1,834,054	$1,614,703	$1,483,752	$1,404,633	$1,213,487
Ratio of earnings to fixed charges	3.49	3.39	3.24	3.03	3.08

* The proportion deemed representative of the interest factor.

The ratios shown are significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, excluding the effects of the operating results of AIGFP, are 5.42, 5.18, 4.77, 5.25 and 5.66 for 1997, 1996, 1995, 1994 and 1993, respectively. As AIGFP will continue to be a subsidiary, AIG expects that these ratios will continue to be lower than they would be if the fixed charges and operating results of AIGFP were not included therein.

Exhibit 21

Subsidiaries of Registrant

Name of Corporation	Jurisdiction of Incorporation	% of Voting Securities Owned by its Immediate Parent (1)
Starr	Delaware	(2)
SICO	Panama	(2)
AIG (Registrant)(3)	Delaware	(4)
AICCO	New Hampshire	100%
AIG Asset Management Group, Inc.	Delaware	100%
AIG Capital Partners, Inc.	Delaware	100%
AIG Aviation, Inc.	Georgia	100%
AIG Capital Corp.	Delaware	100%
AIG Capital Management Corp.	Delaware	100%
AIG Claim Services, Inc.	Delaware	100%
AIG Consumer Finance, Inc.	Delaware	100%
AIG Finance Holdings, Inc.	New York	100%
SPC Credit Limited	Hong Kong	100%
AIG Financial Products Corp.	Delaware	100%
AIG Funding, Inc.	Delaware	100%
AIG Global Investment Group, Inc.	Delaware	100%
AIG Global Trade & Political Risk Insurance Company	New Jersey	100%
AIG Life Insurance Company	Delaware	78.9% (5)
AIG Life Insurance Company of Puerto Rico	Puerto Rico	100%
AIG Marketing, Inc.	Delaware	100%
AIG Risk Management, Inc.	New York	100%
AIG Trading Group Inc.	Delaware	80%
AIU Insurance Company	New York	52% (6)
AIU North America, Inc.	New York	100%
American Home	New York	100%
AIG Hawaii Insurance Company, Inc.	Hawaii	100%
American International Insurance Company	New York	100%
American International Insurance Company of California, Inc.	California	100%
American International Insurance Company of New Jersey	New Jersey	100%
Minnesota Insurance Company	Minnesota	100%
Transatlantic Holdings, Inc.	Delaware	33.98% (7)
American International Assurance Life Company, Ltd.	Canada	100%
American International Group Data Center, Inc.	New Hampshire	100%
American International Life Assurance Company of New York	New York	77.52% (8)
American International Reinsurance Company Limited	Bermuda	100%
AIA	Hong Kong	100%
Australian American Assurance Company Limited	Australia	100%
American International Assurance Company (Bermuda) Limited	Bermuda	100%
Nan Shan Life Insurance Company, Ltd.	Taiwan	94.12%
American International Underwriters Corporation	New York	100%
AIUO	Bermuda	100%
AIG Europe (Ireland) Ltd.	Ireland	100%
Universal Insurance Co., Ltd.	Thailand	100%
Interamericana Compania de Seguros Gerais (Brazil)	Brazil	100%
La Seguridad de Centroamerica, Compania de Seguros, Sociedad Anonima	Guatemala	100%
American International Insurance Company of Puerto Rico	Puerto Rico	100%
La Interamerica Compania de Seguros Generales S.A.	Colombia	100%
American International Underwriters G.m.b.H.	Germany	100%
Underwriters Adjustment Company, Inc.	Panama	100%

Subsidiaries of Registrant--(continued)

Name of Corporation	Jurisdiction of Incorporation	% of Voting Securities Owned by its Immediate Parent (1)
American Life Insurance Company	Delaware	100%
AIG Brasil Holding Ltda.	Brazil	73.6% (9)
Kenya American Insurance Company Limited	Kenya	100%
ALICO	France	89%
American Security Life Insurance Company, Ltd.	Switzerland	99.8%
Birmingham Fire Insurance Company of Pennsylvania	Pennsylvania	100%
China America Insurance Company, Ltd.	Delaware	50%
Commerce and Industry Insurance Company	New York	100%
Commerce and Industry Insurance Company of Canada	Ontario	100%
Delaware American Life Insurance Company	Delaware	100%
Hawaii Insurance Consultants, Ltd.	Hawaii	100%
The Insurance Company of the State of Pennsylvania	Pennsylvania	100%
Landmark Insurance Company	California	100%
Le Metropolitana de Seguros, C. por A.	Dominican Republic	100%
Mt. Mansfield Company, Inc.	Vermont	100%
National Union	Pennsylvania	100%
American International Specialty Lines Insurance Company	Alaska	70% (10)
International Lease Finance Corporation	California	100%
Lexington	Delaware	70% (10)
JI Accident & Fire Insurance Co. Ltd.	Japan	50%
National Union Fire Insurance Company of Louisiana	Louisiana	100%
NHIG Holding Corp.	Delaware	100%
Audubon Insurance Company	Louisiana	100%
Audubon Indemnity Company	Mississippi	100%
Agency Management Corporation	Louisiana	100%
The Gulf Agency, Inc.	Alabama	100%
New Hampshire	Pennsylvania	100%
AIG Europe, S.A.	France	(11)
A.I. Network Corporation	New Hampshire	100%
Marketpac International, Inc.	Delaware	100%
American International Pacific Insurance Company	Colorado	100%
American International South Insurance Company	Pennsylvania	100%
Granite State Insurance Company	Pennsylvania	100%
New Hampshire Indemnity Company, Inc.	Pennsylvania	100%
AIG National Insurance Company, Inc.	New York	100%
Illinois National Insurance Co.	Illinois	100%
New Hampshire Insurance Services, Inc.	New Hampshire	100%
PHILAM	Philippines	99%
Pacific Union Assurance Company	California	100%
The Philippine American General Insurance Company, Inc.	Philippines	100%
Philam Insurance Company, Inc.	Philippines	100%
The Philippine American Assurance Company, Inc.	Philippines	25%
Pine Street Real Estate Holdings Corp.	New Hampshire	(12)
American International Realty Corp.	Delaware	100%

Subsidiaries of Registrant--(continued)

Name of Corporation	Jurisdiction of Incorporation	% of Voting Securities Owned by its Immediate Parent (1)
Risk Specialist Companies, Inc.	Delaware	100%
20th Century Insurance Company of Arizona	Arizona	51%
UeberseeBank, AG	Switzerland	100%
UGC	North Carolina	36.31% (13)
United Guaranty Insurance Company	North Carolina	100%
United Guaranty Mortgage Insurance Company	North Carolina	100%
United Guaranty Mortgage Insurance Company of North Carolina	North Carolina	100%
United Guaranty Residential Insurance Company of North Carolina	North Carolina	100%
United Guaranty Residential Insurance Company	North Carolina	75% (14)
United Guaranty Commercial Insurance Company of North Carolina	North Carolina	100%
United Guaranty Commercial Insurance Company	North Carolina	100%
United Guaranty Credit Insurance Company	North Carolina	100%
United Guaranty Services, Inc.	North Carolina	100%

(1) Percentages include directors' qualifying shares.
(2) The directors and executive officers of AIG as a group own 79.50 percent of the voting common stock of Starr and 75 percent of the voting stock of SICO. Six of the directors of AIG also serve as directors of Starr and SICO.
(3) All subsidiaries listed except for minority-owned Transatlantic Holdings, Inc., which is included under the equity method, are consolidated in the accompanying financial statements. Certain subsidiaries have been omitted from the tabulation. The omitted subsidiaries, when considered in the aggregate as a single subsidiary, do not constitute a significant subsidiary.
(4) The common stock is owned 16.2 percent by SICO, 2.4 percent by Starr and 3.5 percent by The Starr Foundation.
(5) Also owned 21.1 percent by Commerce & Industry Insurance Company.
(6) Also owned 8 percent by The Insurance Company of the State of Pennsylvania, 32 percent by National Union, and 8 percent by Birmingham.
(7) Also owned 15.02 percent by American International Group, Inc.
(8) Also owned 22.48 percent by American Home.
(9) Also owned 26.4 percent by American International Group, Inc.
(10) Also owned 20 percent by The Insurance Company of the State of Pennsylvania and 10 percent by Birmingham.
(11) 100 percent to be held with other AIG companies.
(12) Owned by 13 AIG subsidiaries.
(13) Also owned 45.88 percent by National Union, 16.95 percent by New Hampshire and 0.86 percent by The Insurance Company of the State of Pennsylvania.
(14) Also owned 25 percent by United Guaranty Residential Insurance Company of North Carolina.

Exhibit 23

Consent of Independent Accountants

We consent to the incorporation by reference in the Registration Statements of American International Group, Inc. on Forms S-3 and S-8 (No. 2-38768, No. 2-44043, No. 2-45346, No. 2-51498, No. 2-59317, No. 2-61858, No. 2-62760, No. 2-64336, No. 2-67600, No. 2-72058, No. 2-75874, No. 2-75875, No. 2-78291, No. 2-87005, No. 2-82989, No. 2-90756, No. 2-91945, No. 2-95589, No. 2-97439, No. 33-8495, No. 33-13874, No. 33- 18073, No. 33-25291, No. 33-41643, No. 33-48996, No. 33-57250, No. 33-60327, No. 33-60827, No. 33-62821, No. 333-21365 and No. 333-48639) of our report dated February 10, 1998, on our audits of the consolidated financial statements and financial statement schedules of American International Group, Inc. and subsidiaries as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997, which report is included in the Annual Report on Form 10-K of American International Group, Inc. for the year 1997, and to the reference to our firm under the headings "Financial Statements" or "Experts" included in the Prospectuses.

COOPERS & LYBRAND L.L.P.

New York, New York
March 30, 1998.

AMERICAN INTERNATIONAL GROUP, INC.
Financial Data Schedule
For the twelve months ended December 31, 1997
(in thousands, except per share amounts)

1,000

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
38,077,792
12,530,315
13,365,703
5,348,019
3,012,811
1,442,390
119,554,170
86,917
16,110,521
6,592,506
163,970,687
57,902,165
8,739,006
0
12,675,626
17,260,319
0
0
1,897,804
22,103,323
163,970,687
22,346,679
4,749,992
118,515
(96,652)
18,167,417
1,847,463
3,187,803
4,698,898
1,366,563
3,332,335
0
0
0
3,332,335
4.75
4.73
20,407,300
9,732,600
(376,400)
2,976,300
5,615,700
21,171,500
398,600

Exhibit 99

Undertakings

(a) The undersigned registrant hereby undertakes:

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

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

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

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

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

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

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

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

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

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

Schedule I

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS--OTHER THAN INVESTMENTS IN RELATED PARTIES
As of December 31, 1997

(in thousands)

Type of Investment	Cost*	Value	Amount at which shown in the Balance Sheet
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 1,331,075	$ 1,450,881	$ 1,450,018
States, municipalities and political subdivisions	18,595,100	19,771,734	18,937,245
Foreign governments	8,730,451	9,004,582	9,004,546
Public utilities	2,861,864	3,083,929	3,083,929
All other corporate	18,279,799	18,850,917	18,850,917
Total bonds	49,798,289	52,162,043	51,326,655
Preferred stocks	239,331	530,705	239,331
Total fixed maturities	50,037,620	52,692,748	51,565,986
Equity securities:			
Common stocks:			
Public utilities	157,713	201,714	201,714
Banks, trust and insurance companies	750,658	1,153,918	1,153,918
Industrial, miscellaneous and all other	3,717,062	3,853,642	3,853,642
Total common stocks	4,625,433	5,209,274	5,209,274
Non-redeemable preferred stocks	138,412	138,745	138,745
Total equity securities	4,763,845	5,348,019	5,348,019
Mortgage loans on real estate, policy and collateral loans	7,919,764	7,966,673	7,919,764
Financial services assets:			
Flight equipment primarily under operating leases, net of accumulated depreciation	14,438,074	--	14,438,074
Securities available for sale, at market value	9,145,244	9,145,317	9,145,317
Trading securities, at market value	--	3,974,561	3,974,561
Spot commodities, at market value	--	459,517	459,517
Unrealized gain on interest rate and currency swaps, options and forward transactions	--	7,422,290	7,422,290
Trading assets	6,715,486	--	6,715,486
Securities purchased under agreements to resell, at contract value	4,551,191	--	4,551,191
Other invested assets	4,681,423	--	4,681,423
Short-term investments, at cost (approximates market value)	3,332,542	--	3,332,542
Total investments	$105,585,189	--	$119,554,170

* Original cost of equity securities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums or accrual of discounts.

Schedule II

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET -- PARENT COMPANY ONLY

(in thousands)

December 31,	1997	1996
Assets:		
Cash	$ 4,110	$ 676
Short-term investments	573	13
Invested assets	584,513	305,895
Carrying value of subsidiaries and partially-owned companies, at equity	24,476,844	22,194,522
Premiums and insurance balances receivable-net	61,521	37,880
Other assets	270,181	615,716
Total assets	$25,397,742	$23,154,702
Liabilities:		
Insurance balances payable	$ 204,479	$ 148,477
Due to affiliates-net	229,917	467,140
Medium term notes payable	248,225	140,000
Zero coupon notes	91,179	81,761
Italian Lire bonds	159,067	159,067
Other liabilities	463,748	114,033
Total liabilities	$ 1,396,615	$ 1,110,478
Capital funds:		
Common stock	$ 1,897,804	$ 1,265,210
Additional paid-in capital	105,689	127,415
Unrealized appreciation of investments, net of taxes	1,350,182	1,378,318
Cumulative translation adjustments, net of taxes	(1,178,041)	(493,218)
Retained earnings	22,920,991	20,420,881
Treasury stock	(1,095,498)	(654,382)
Total capital funds	24,001,127	22,044,224
Total liabilities and capital funds	$25,397,742	$23,154,702

STATEMENT OF INCOME--PARENT COMPANY ONLY

(in thousands)

Years Ended December 31,	1997	1996	1995
Agency income	$ 145	$ 484	$ 1,561
Financial services income	105,897	227,242	119,541
Dividend income from consolidated subsidiaries:			
Cash	1,458,676	1,141,468	728,825
Dividend income from partially-owned companies	21,973	7,159	1,232
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	2,340,991	1,900,389	1,901,252
Other income (deductions)-net	(302,249)	(80,989)	(76,537)
Income before income taxes	3,625,433	3,195,753	2,675,874
Income taxes	293,098	298,496	165,491
Net income	$ 3,332,335	$ 2,897,257	$ 2,510,383

Schedule II

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT--(continued)
STATEMENT OF CASH FLOWS--PARENT COMPANY ONLY

(in thousands)

Years Ended December 31,	1997	1996	1995
Cash flows from operating activities:			
Net income	$ 3,332,335	$ 2,897,257	$ 2,510,383
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash revenues, expenses, gains and losses included in income:			
Equity in undistributed net income of consolidated subsidiaries and partially-owned companies	(2,340,991)	(1,900,389)	(1,901,252)
Change in premiums and insurance balances receivable and payable-net	32,361	22,310	20,142
Change in cumulative translation adjustments	40,904	65,427	18,196
Other-net	400,794	(293,680)	(402,841)
Total adjustments	(1,866,932)	(2,106,332)	(2,265,755)
Net cash provided by operating activities	1,465,403	790,925	244,628
Cash flows from investing activities:			
Purchase of investments	(10,251)	(300)	(15,400)
Sale of investments	--	34,343	395
Change in short-term investments	(560)	10,146	(9,090)
Change in collateral and guaranteed loans	(236,434)	2,000	15,000
Contributions to subsidiaries and investments in partially-owned companies	(700,223)	(292,069)	(68,398)
Other-net	(4,097)	(94,099)	(135)
Net cash used in investing activities	(951,565)	(339,979)	(77,628)
Cash flows from financing activities:			
Change in medium term notes	108,225	25,000	(40,000)
Proceeds from common stock issued	36,568	23,013	20,519
Change in loans payable	43,844	150,700	17,680
Cash dividends to shareholders	(199,631)	(174,115)	(153,572)
Acquisition of treasury stock	(507,707)	(493,872)	(17,646)
Other-net	8,297	18,862	6,104
Net cash used in financing activities	(510,404)	(450,412)	(166,915)
Change in cash	3,434	534	85
Cash at beginning of year	676	142	57
Cash at end of year	$ 4,110	$ 676	$ 142

NOTES TO FINANCIAL STATEMENTS--PARENT COMPANY ONLY

(1) Agency operations conducted in New York through the North American Division of AIU are included in the financial statements of the parent company.

(2) Certain accounts have been reclassified in the 1996 and 1995 financial statements to conform to their 1997 presentation.

(3) "Equity in undistributed net income of consolidated subsidiaries and partially-owned companies" in the accompanying Statement of Income--Parent Company Only--includes equity in income of the minority-owned insurance operations.

(4) See also Notes to Consolidated Financial Statements.

Schedule III

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
As of December 31, 1997, 1996 and 1995 and for the years then ended

(in thousands)

Segment	Deferred Policy Acquisition Costs	Reserves for Losses and Loss Expenses, Future Policy Benefits(a)	Reserve for Unearned Premiums	Policy and Contract Claims(b)	Premium Revenue	Net Investment Income	Losses and Loss Expenses Incurred, Benefits	Amortization of Deferred Policy Acquisition Costs(c)
1997								
General insurance	$ 1,637,211	$33,400,160	$ 8,739,006	$ --	$12,421,040	$ 1,853,523	$ 9,356,219	$ 1,216,000
Life insurance	4,955,295	24,502,005	--	794,604	9,925,639	2,896,469	8,811,198	631,463
	$ 6,592,506	$57,902,165	$ 8,739,006	$ 794,604	$22,346,679	$ 4,749,992	$18,167,417	$ 1,847,463
1996								
General insurance	$ 1,415,849	$33,429,807	$ 7,598,928	$ --	$11,854,815	$ 1,690,798	$ 8,996,431	$ 1,180,138
Life insurance	5,055,508	24,002,860	--	794,181	8,978,246	2,675,881	8,103,578	627,714
	$ 6,471,357	$57,432,667	$ 7,598,928	$ 794,181	$20,833,061	$ 4,366,679	$17,100,009	$ 1,807,852
1995								
General insurance	$ 1,289,788	$33,046,717	$ 6,938,064	$ --	$11,405,731	$ 1,547,572	$ 8,659,835	$ 1,108,040
Life insurance	4,477,785	20,864,635	--	708,878	8,038,150	2,264,905	7,088,034	620,487
	$ 5,767,573	$53,911,352	$ 6,938,064	$ 708,878	$19,443,881	$ 3,812,477	$15,747,869	$ 1,728,527

(in thousands)

Segment	Other Operating Expenses	Net Premiums Written
1997		
General insurance	$ 1,358,653	$13,407,529
Life insurance	1,829,150	--
	$ 3,187,803	$13,407,529
1996		
General insurance	$ 1,228,462	$12,691,679
Life insurance	1,633,875	--
	$ 2,862,337	$12,691,679
1995		
General insurance	$ 1,221,219	$11,893,022
Life insurance	1,536,632	--
	$ 2,757,851	$11,893,022

(a) Reserves for losses and loss expenses with respect to the general insurance operations are net of discounts of $294 million, $62 million and $21 million for 1997, 1996 and 1995, respectively.
(b) Reflected in insurance balances payable on the accompanying balance sheet.
(c) Amounts shown for general insurance segment exclude amounts deferred and amortized in the same period.

Schedule IV

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
REINSURANCE
As of December 31, 1997, 1996 and 1995 and for the years then ended

(dollars in thousands)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percent of Amount Assumed to Net
1997					
Life insurance in-force	$436,573,123	$ 50,924,412	$ 1,242,877	$386,891,588	0.3%
Premiums:					
General insurance	$ 17,096,848	$ 5,334,526	$ 1,645,207	$ 13,407,529	12.3%
Life insurance	10,191,376	286,139	20,402	9,925,639	0.2
Total premiums	$ 27,288,224	$ 5,620,665	$ 1,665,609	$ 23,333,168	7.1%
1996					
Life insurance in-force	$421,983,133	$ 36,887,659	$ 815,650	$385,911,124	0.2%
Premiums:					
General insurance	$ 16,696,419	$ 5,627,453	$ 1,622,713	$ 12,691,679	12.8%
Life insurance	9,226,821	261,142	12,567	8,978,246	0.1
Total premiums	$ 25,923,240	$ 5,888,595	$ 1,635,280	$ 21,669,925	7.5%
1995					
Life insurance in-force	$376,097,107	$ 34,779,331	$ 239,787	$341,557,563	0.1%
Premiums:					
General insurance	$ 16,357,919	$ 6,002,098	$ 1,537,201	$ 11,893,022	12.9%
Life insurance	8,234,425	207,272	10,997	8,038,150	0.1
Total premiums	$ 24,592,344	$ 6,209,370	$ 1,548,198	$ 19,931,172	7.8%