

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

OR

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

For the Transition Period From _____ to _____

For Quarter Ended March 31, 1994

Commission File Number 0-4652

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 Number)

70 Pine Street, New York, New York

10270

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(212) 770-7000

NONE

Former name, former address and former fiscal year, if changed since last
report.

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

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of
common stock, as of March 31, 1994 316,874,728.

AMERICAN INTERNATIONAL GROUP, INC.
 CONSOLIDATED BALANCE SHEET
 (dollars in thousands)
 (unaudited)

	MARCH 31, 1994	DECEMBER 31, 1993
	-----	-----
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds held to maturity, at amortized cost (market value: 1994-\$12,921,000; 1993-\$13,278,300)	\$ 12,424,812	\$ 12,193,701
Bonds available for sale, at market value (cost: 1994-\$17,342,600; 1993-\$16,599,600)	17,802,072	17,562,411
Bonds trading securities, at market value (cost: 1994-\$277,900; 1993-\$307,900)	262,452	310,834
Preferred stocks, at amortized cost (market value: 1994-\$26,100; 1993-\$18,000)	12,668	17,428
Equity securities:		
Common stocks (cost: 1994-\$4,021,700; 1993-\$3,720,000)	4,682,316	4,364,410
Non-redeemable preferred stocks (cost: 1994-\$99,400; 1993-\$108,200)	131,915	123,837
Mortgage loans on real estate, policy and collateral loans	4,259,845	3,576,516
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation	9,188,413	8,555,356
Securities available for sale, at market value (cost: 1994-\$5,655,900; 1993-\$4,971,800)	5,669,472	4,991,105
Trading securities, at market value	2,016,531	2,516,166
Spot commodities, at market value	908,448	764,215
Net unrealized gain on interest rate and currency swaps, options and forward transactions	-	640,120
Unrealized gain on interest rate and currency swaps, options and forward transactions	5,670,457	-
Receivables from securities brokers and dealers	1,920,565	1,328,391
Securities purchased under agreements to resell, at contract value	2,771,316	2,737,507
Other invested assets	1,568,471	1,265,056
Short-term investments, at cost which approximates market value	4,958,789	5,072,893
Cash	101,609	157,481
	-----	-----
Total investments and cash	74,350,151	66,177,427
Investment income due and accrued	765,436	808,268
Premiums and insurance balances receivable - net	8,641,889	8,364,096
Reinsurance assets	15,951,944	15,883,788
Deferred policy acquisition costs	4,485,318	4,249,409
Investments in partially-owned companies	583,333	571,680
Real estate and other fixed assets, net of accumulated depreciation	1,651,024	1,615,742
Separate and variable accounts	2,341,431	1,914,815
Other assets	1,475,907	1,429,623
	-----	-----
Total assets	\$ 110,246,433	\$ 101,014,848
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
CONSOLIDATED BALANCE SHEET
(dollars in thousands)
(unaudited)

	MARCH 31, 1994	DECEMBER 31, 1993
	-----	-----
LIABILITIES:		
Reserve for losses and loss expenses	\$ 30,460,247	\$ 30,046,172
Reserve for unearned premiums	5,768,612	5,515,670
Future policy benefits for life and accident and health insurance contracts	15,212,520	14,638,382
Policyholders' contract deposits	5,394,780	4,439,839
Other policyholders' funds	1,816,501	1,739,290
Reserve for commissions, expenses and taxes	1,202,695	1,113,397
Insurance balances payable	1,427,295	1,458,383
Funds held by companies under reinsurance treaties	394,219	406,902
Income taxes payable:		
Current	298,688	358,219
Deferred	398,310	447,790
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	6,021,267	6,735,579
Securities sold under agreements to repurchase, at contract value	2,765,466	2,299,563
Payables to securities brokers and dealers	2,270,091	1,688,147
Securities sold but not yet purchased, principally obligations of the U.S. Government and Government agencies, at market value	1,239,632	696,454
Spot commodities sold but not yet purchased, at market value	302,643	285,757
Unrealized loss on interest rate and currency swaps, options and forward transactions	4,979,334	-
Deposits due to banks and other depositors	587,655	557,372
Commercial paper	1,661,593	1,618,979
Notes, bonds and loans payable	5,648,226	5,021,941
Commercial paper	1,490,800	1,529,906
Notes, bonds, loans and mortgages payable	735,886	782,660
Separate and variable accounts	2,341,431	1,914,815
Other liabilities	2,091,577	2,295,436
	-----	-----
Total liabilities	94,509,468	85,590,653
	-----	-----
Preferred shareholders' equity in subsidiary company	200,000	200,000
CAPITAL FUNDS:		
Common stock, \$2.50 par value; 500,000,000 shares authorized; shares issued 1994 - 337,390,986; 1993 - 337,390,986	843,477	843,477
Additional paid-in capital	571,468	572,142
Unrealized appreciation of investments, net of taxes	806,241	922,646
Cumulative translation adjustments, net of taxes	(327,578)	(348,186)
Retained earnings	13,775,381	13,301,529
Treasury stock, at cost; 1994 - 20,516,258; 1993 - 19,762,919 shares of common stock	(132,024)	(67,413)
	-----	-----
Total capital funds	15,536,965	15,224,195
	-----	-----
Total liabilities and capital funds	\$ 110,246,433	\$ 101,014,848
	=====	=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
CONSOLIDATED STATEMENT OF INCOME
(in thousands, except per share amounts)
(unaudited)

	THREE MONTHS ENDED MARCH 31,	
	1994	1993
	-----	-----
General insurance operations:		
Net premiums written	\$ 2,621,305	\$ 2,443,810
Change in unearned premium reserve	(164,952)	(206,222)
	-----	-----
Net premiums earned	2,456,353	2,237,588
Net investment income	354,129	330,656
Realized capital gains	20,094	24,701
	-----	-----
	2,830,576	2,592,945
	-----	-----
Losses and loss expenses incurred	1,977,467	1,795,323
Underwriting expenses	483,554	421,131
	-----	-----
	2,461,021	2,216,454
	-----	-----
Operating income	369,555	376,491
	-----	-----
Life insurance operations:		
Premium income	1,495,099	1,254,309
Net investment income	407,996	349,222
Realized capital gains	28,740	13,090
	-----	-----
	1,931,835	1,616,621
	-----	-----
Death and other benefits	576,801	501,668
Increase in future policy benefits	712,453	593,211
Acquisition and insurance expenses	419,460	344,178
	-----	-----
	1,708,714	1,439,057
	-----	-----
Operating income	223,121	177,564
	-----	-----
Agency and service fee operating income	15,575	16,015
Financial services operating income	97,098	86,191
Equity in income of minority-owned insurance operations	7,272	8,887
Other realized capital gains (losses)	(10,205)	(3,232)
Other income (deductions) - net	(24,006)	(21,645)
	-----	-----
Income before income taxes and cumulative effect of accounting changes	678,410	640,271
	-----	-----
Income taxes (benefits) - Current	218,969	223,881
- Deferred	(46,177)	(58,836)
	-----	-----
	172,792	165,045
	-----	-----
Income before cumulative effect of accounting changes	505,618	475,226
Cumulative effect of accounting changes, net of tax		
Minority-owned insurance operations	-	20,695
	-----	-----
Net income	\$ 505,618	\$ 495,921
	=====	=====
Earnings per common share (a):		
Income before cumulative effect of accounting changes	\$ 1.59	\$1.49
Cumulative effect of accounting changes, net of tax		
Minority-owned insurance operations	-	0.07
	-----	-----
Net income	\$ 1.59	\$ 1.56
	=====	=====
Cash dividends per common share	\$ 0.10	\$ 0.093
	=====	=====
Average shares outstanding (a)	317,456	317,484
	-----	-----

(a) 1993 adjusted for a 50 percent common stock split in the form of a common stock dividend paid July 30, 1993.

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(in thousands)
(unaudited)

	THREE MONTHS ENDED MARCH 31,	
	1994	1993
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 505,618	\$ 495,921
	-----	-----
Adjustments to reconcile net income to net cash provided by operation activities:		
Non-cash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	1,241,155	1,394,942
Premiums and insurance balances receivable and payable-net	(308,881)	(439,357)
Reinsurance assets	(68,156)	(69,472)
Deferred policy acquisition costs	(235,909)	(204,977)
Investment income due and accrued	42,832	16,860
Funds held under reinsurance treaties	(12,683)	35,539
Other policyholders' funds	77,211	106,469
Current and deferred income taxes - net	(105,708)	65,223
Reserve for commissions, expenses and taxes	89,298	130,706
Other assets and liabilities - net	(250,143)	248,592
Receivables from and payables to securities brokers and dealers-net	(10,230)	826,796
Trading securities, at market value	499,635	(45,090)
Spot commodities, at market value	(144,233)	76,266
Net unrealized gain on interest rate and currency swaps, options and forward transactions	(51,003)	107,342
Securities purchased under agreements to resell	(33,809)	2,293,823
Securities sold under agreements to repurchase	465,903	(1,837,750)
Securities sold but not yet purchased	543,178	20,297
Spot commodities sold but not yet purchased, at market value	16,886	(1,292,059)
Realized capital gains	(38,629)	(34,559)
Equity in income of partially-owned companies and other invested assets	(14,225)	15,383
Depreciation expenses, principally flight equipment	128,396	107,991
Cumulative effect of accounting changes	-	(20,695)
Change in cumulative translation adjustments	36,354	39,605
Other - net	214,703	(27,142)
	-----	-----
Total Adjustments	2,081,942	1,514,733
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,587,560	2,010,654
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cost of fixed maturities, at amortized cost, sold	-	447,889
Cost of fixed maturities, at amortized cost, matured or redeemed	172,275	352,977
Cost of bonds, at market, sold	1,890,940	1,536,468
Cost of bonds, at market, matured or redeemed	325,552	180,127
Cost of equity securities sold	740,158	328,659
Realized capital gains	38,629	34,559
Purchases of fixed maturities	(3,334,783)	(3,203,882)
Purchases of equity securities	(1,001,703)	(524,086)
Mortgage, policy and collateral loans granted	(844,575)	(221,279)
Repayments of mortgage, policy and collateral loans	98,756	177,224
Sales or maturities of securities held for investment	-	677,935
Sales or maturities of securities available for sale	1,136,306	-
Purchases of securities held for investment	-	(766,389)
Purchases of securities available for sale	(1,798,121)	-
Sales of flight equipment	78,630	67,753
Purchases of flight equipment	(789,817)	(973,548)
Net additions to real estate and other fixed assets	(85,549)	(57,481)
Sales or distributions of other invested assets	32,446	20,353
Investments in other invested assets	(143,809)	(93,486)
Change in short-term investments	114,104	284,352
Investments in partially-owned companies	(28,005)	(1,577)
	-----	-----
NET CASH USED IN INVESTING ACTIVITIES	(3,398,566)	(1,733,432)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in policyholders' contract deposits	954,941	(143,369)
Change in deposits due to banks and other depositors	30,283	(483,500)
Change in commercial paper	3,508	52,817
Proceeds from notes, bonds, loans and mortgages payable	1,006,057	597,546
Repayments on notes, bonds, loans and mortgages payable	(428,292)	(233,685)
Proceeds from guaranteed investment agreements	275,126	762,558
Maturities of guaranteed investment agreements	(989,438)	(747,196)
Proceeds from common stock issued	3,267	3,492
Cash dividends to shareholders	(31,766)	(30,450)
Acquisition of treasury stock	(68,552)	(269)
Redemption of preferred stock	-	(75,000)
Other - net	-	(38)
	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	755,134	(297,094)
	-----	-----
CHANGE IN CASH	(55,872)	(19,872)
Cash at beginning of year	157,481	136,628

CASH AT END OF YEAR

\$ 101,609
=====

\$ 116,756
=====

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 MARCH 31, 1994

a) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair presentation of the results shown.

b) Earnings per share of American International Group, Inc. (AIG) are based on the weighted average number of common shares outstanding during the period, retroactively adjusted to reflect a 50 percent common stock split in the form of a common stock dividend paid July 30, 1993. The effect of potentially dilutive securities is not significant.

(c) Cash dividends per common share reflect the adjustment for a 50 percent common stock split in the form of a common stock dividend paid July 30, 1993. The quarterly dividend rate per common share, commencing with the dividend paid September 17, 1993 is \$.10.

(d) Supplemental cash flow information for the three month period ended March 31, 1994 and 1993 is as follows:

	(in thousands)	
	1994	1993
	----	----
Income taxes paid	\$ 276,294	\$ 90,141
Interest paid	\$ 196,000	\$ 207,000

(e) In March 1992, the Financial Accounting Standards Board (FASB) issued Interpretation No. 39 "Offsetting of Amounts Related to Certain Contracts" (Interpretation), which is effective for fiscal years beginning after December 15, 1993. The Interpretation requires that unrealized gains and losses on swaps, forwards, options and similar contracts be recognized as assets and liabilities. Previously, AIG's policy was to record such unrealized gains and losses on a net basis in the consolidated balance sheet. The Interpretation allows the netting of such unrealized gains and losses with the same counterparty when they are included under a master netting arrangement with the counterparty and the contracts are reported at market value.

Although there was no effect on AIG's operating income upon the adoption of the Interpretation, AIG now presents certain of its financial services assets and liabilities, primarily unrealized gain (loss) on interest rate and currency swaps, options and forward transactions, on a gross basis. Thus, both consolidated assets and liabilities have increased. The effect of presenting these assets and liabilities on a gross basis on AIG's consolidated balance sheet was not significant. Prior years' balance sheets are not required to be restated.

In November of 1992, FASB issued Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Post-employment Benefits" (FASB 112). FASB 112 established accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. FASB 112 was effective January 1, 1994 and had no significant effect on AIG's results of operations or financial condition.

(f) For further information, refer to the Form 10-K filing of AIG for the year ended December 31, 1993.

AMERICAN INTERNATIONAL GROUP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Operational Review

General Insurance Operations

In AIG's general insurance operations, the net premiums written and net premiums earned were \$2.62 billion and \$2.46 billion, respectively, in the first three months of 1994. These were increases of 7.3 percent and 9.8 percent, respectively, over the same period of 1993.

The growth in net premiums written in 1994 over 1993 resulted from a combination of several factors. Although AIG continued to achieve general price increases in domestic commercial property and some specialty casualty markets, the primary reasons for growth were price and volume increases overseas. AIG continues to be disciplined in its underwriting approach, especially in the domestic primary casualty market, and does not seek net premium growth where rates do not adequately reflect the assessment of exposures.

Net premiums written are initially deferred and earned based upon the terms of the underlying policies. The net unearned premium reserve constitutes the deferred earnings 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.

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 the deferral of acquisition costs. The adjusted underwriting loss in the first three months of 1994 was \$4.7 million compared to an adjusted underwriting profit of \$21.1 million recorded for the same period in 1993.

The statutory general insurance ratios for the first three months were as follows:

	1994	1993
Loss Ratio	80.50	80.23
Expense Ratio	20.17	19.33
Combined Ratio	100.67	99.56

The gross and net incurred losses as a result of the earthquake which struck the Los Angeles area of California in January, 1994 were approximately \$150 million and \$55 million,

respectively. Although there were severe winter storms during the first quarter of 1994, AIG recognizes these as losses in the ordinary course of business, not as catastrophes. The gross and net catastrophe losses, recorded in the same period of 1993 approximated \$55 million and \$8 million, respectively.

If the catastrophes were excluded from the losses incurred in each three month period, the pro forma statutory general insurance ratios would be as follows:

	1994	1993
Loss Ratio	78.26	79.88
Expense Ratio	20.17	19.33
Combined Ratio	98.43	99.21

The maintenance of the statutory combined ratio in both periods at a level approximating 100 is a result of AIG's emphasis on maintaining its underwriting discipline within the continued overall competitiveness of the domestic market environment as well as AIG's expense control.

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 the first quarter of 1994 and 1993 were insignificant. Also, AIG is 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.

At March 31, 1994, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$30.46 billion, an increase of \$414.1 million or 1.4 percent over the prior year end. General insurance net loss reserves represent the accumulation of estimates of ultimate losses, including provisions for losses incurred but not reported (IBNR), and loss expenses, reduced by reinsurance recoverable net of an allowance for unrecoverable reinsurance and very minor amounts of discounting related to certain workers' compensation claims. The net loss reserves increased \$241.0 million or 1.4 percent to \$17.80 billion. The

methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at March 31, 1994. 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.

AIG's reinsurance recoverable results from its reinsurance arrangements. These arrangements do not relieve AIG from its direct obligation to its insureds. Thus, a contingent liability of approximately \$13 billion existed at March 31, 1994 with respect to general reinsurance reserves for loss and loss expenses ceded (reinsurance recoverable) to the extent that reinsurers are unable to meet their obligations assumed under the reinsurance agreements. However, AIG holds substantial collateral as security under related reinsurance agreements in the form of funds, securities and/or irrevocable letters of credit which can be drawn on for amounts that remain unpaid beyond specified time periods. Although a provision is recorded for estimated unrecoverable reinsurance, AIG has been largely successful in prior recovery efforts.

AIG enters into certain intercompany reinsurance transactions for both 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.

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. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms and current and future estimates of 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 have ranged from 7 percent to 22 percent of average loss costs, depending on the particular class and nature of the business involved. For the majority of long tail casualty lines, net loss trend factors approximating 10 percent were employed. 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 indemnity claims asserting injuries from toxic waste, hazardous substances, asbestos and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (environmental claims). The vast majority of these environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. AIG has established a special environmental claims unit which investigates and adjusts all such claims.

Estimation of environmental claims loss reserves is a difficult process. These 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 environmental claims are the inconsistent court resolutions, the broadening of the intent of the policies and scope of coverage and the increasing number of new claims. The case law that has emerged can be characterized as still being in its infancy and the likelihood of any firm direction in the near future is very small. Additionally, the exposure for cleanup costs of hazardous waste dump sites involves coverage issues such as allocation of responsibility among potential responsible parties and the government's refusal to release parties. The cleanup cost exposure may significantly change if the Congressional reauthorization of Superfund in 1994 is dramatically changed 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. 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 the current reserves held. This emergence cannot now be reasonably estimated, but could have a material impact on AIG's future operating results and financial condition. The reserves carried for these claims as at March 31, 1994 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 those 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 gross and net IBNR included in the reserve for loss and loss expenses at March 31, 1994 for environmental claims approximated \$252 million and \$90 million, respectively; for 1993, \$230 million and \$80 million, respectively. Most of the claims included in the following table relate to policies written in 1984 and prior years.

A summary of reserve activity, including estimates for applicable IBNR, relating to environmental claims for the three months ended March 31, 1994 and 1993 was as follows:

(in millions)

	1994		1993	
	Gross	Net	Gross	Net
Reserve for loss and loss expense at beginning of year	\$1,478.5	\$386.3	\$1,222.1	\$318.0
Loss and loss expenses incurred	37.0	38.1	137.2	36.6
Loss and loss expenses paid	(58.9)	(23.1)	(74.1)	(27.2)
Reserve for loss and loss expenses at end of period	\$1,456.6	\$401.3	\$1,285.2	\$327.4

The majority of AIG's exposures for 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.

General insurance net investment income in the first three months of 1994 was \$354.1 million, an increase of 7.1 percent from the same period of 1993. The growth in net investment income 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.

General insurance realized capital gains were \$20.1 million in the first three months of 1994 and \$24.7 million for the same period of 1993. 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, fixed maturities carried at market value and redemptions of fixed maturities.

General insurance operating income in the first three months of 1994 was \$369.6 million, a decrease of 1.8 percent when compared to \$376.5 million in the same period of 1993. The 1994 operating results were significantly impacted by the aforementioned catastrophe. The contribution of general insurance operating

income to income before income taxes and the cumulative effect of accounting changes was 54.5 percent in the first three months of 1994 compared to 58.8 percent in the same period of 1993. The decline in the contribution percentage was a result of the catastrophe loss and the relative growth in life operating income.

A period to period comparison of operating income is significantly influenced by the catastrophe losses in any one period as well as the volatility from one period to the next in realized capital gains. Adjusting each year to exclude the effects of both catastrophe losses and realized capital gains, the operating income in 1994 would have increased 12.4 percent over 1993. The increase in the growth rate of 1994 over 1993 after the aforementioned adjustments was a result of the increased net investment income as previously discussed and improvement in underwriting results after the exclusion of the effects of the catastrophes.

Life Insurance Operations

AIG's life insurance operations continued to show growth as a result of overseas operations, particularly in Asia. AIG's life premium income of \$1.50 billion for the first three months of 1994 represented a 19.2 percent increase from the same period of the prior year. The foreign ordinary life products were the major contributor to premium growth. In 1994, foreign life operations produced 93.4 percent of the life premium income and 95.6 percent of the life insurance operating income as compared to 95.2 percent of life premium income and 94.4 percent of life insurance operating income for the same period of 1993.

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 being sold in Japan.

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 \$1 million 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 recent three year period or in the first quarter of 1994.

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 determine if a liquidity excess or deficit is perceived to exist. 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.

The asset-liability relationship is appropriately managed in AIG's foreign operations, 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. In Japan, the average duration of the investment portfolio approximates 5 years, while the related policy liabilities are estimated to be 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 short-fall through its international financial network. Domestically, the asset-liability matching process is appropriately functioning as there are investments available to match the duration and the required yield.

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.

Life insurance net investment income increased 16.8 percent to \$408.0 million in the first three months of 1994 compared to \$349.2 million in the same period of 1993. The growth in net investment income was primarily attributable to new cash flow for investment. The new cash flow was generated from net life insurance operating cash flow and included the compounding of previously earned and reinvested net investment income.

Life insurance realized capital gains were \$28.7 million and \$13.1 million in the first three months of 1994 and 1993, respectively. 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 redemption of fixed maturities and, to a lesser extent, from the disposition of equity securities.

Life insurance operating income in the first three months of 1994 increased 25.7 percent to \$223.1 million compared to \$177.6 million in the same period of 1993. Excluding realized capital gains from life insurance operating income, the increase in 1994 over 1993 would be 18.2 percent. The contribution of life insurance operating income to income before income taxes and the cumulative effect of accounting changes amounted to 32.9 percent in 1994 compared to 27.7 percent in 1993. The increase in the contribution percentage was a result of both the growth in life premium income and net investment income as well as higher realized capital gains.

Agency and Service Fee Operations

Agency and service fee operating income in the first three months of 1994 decreased 2.7 percent to \$15.6 million compared to \$16.0 million in the same period of 1993. Although the growth in risk management services continues, revenues from AIG's aviation insurance management operations has declined slightly. Agency and service fee operating income contributed 2.3 percent to AIG's income before income taxes and the cumulative effect of accounting changes in 1994 compared to 2.5 percent in 1993.

Financial Services Operations

Financial services operating income amounted to \$97.1 million in the first three months of 1994, an increase of 12.7 percent. This compared to \$86.2 million in the same period of 1993. The financial services operating income in 1994 increased over that of 1993 primarily as a result of an increase in the operating income of International Lease Finance Corporation (ILFC). Both AIG Trading Group Inc. and its subsidiaries (AIGTG) and AIG Financial Products Corp. and its subsidiaries (AIGFP) experienced declines in their

respective operating income. The commodities markets in which AIGTG operates were extremely turbulent during the first quarter of 1994. The general cautiousness of AIGTG's customers with respect to these markets reduced AIGTG's trading volume relative to prior quarters. AIGFP's operations are transaction oriented and non-cyclical. In the first three months of 1994, AIGFP closed fewer transactions when compared to the same period in 1993. As a transaction oriented, non-cyclical operation, current and past performance do not provide a trend for future performance.

Through AIGFP and AIGTG, AIG participates in the derivatives market, which has expanded significantly during the past several years. Derivative products typically take the form of futures, forward, swap and option contracts and derive their values from underlying interest rate, foreign exchange, equity, or commodity instruments. End users find derivatives to be a cost effective approach to managing market risks associated with traditional on-balance sheet financial instruments. As a dealer of derivative contracts, AIG typically acts as a counterparty to end users or other dealers. Consequently, AIG may build up substantial positions in derivatives which are managed by taking offsetting positions in other derivatives, commodities or financial instruments. AIG's counterparties include financial services companies, governmental units, banks and industrial companies. In considering AIG's derivative activities, it is also important to note that all significant derivative activities are conducted through AIGFP and AIGTG and that AIG's other units, including its insurance subsidiaries, are not significant end users of derivative products.

The notional amounts used to express the extent of AIG's involvement in derivatives transactions do not represent a quantification of the market or credit risks of the positions and are not recorded on the balance sheet. Dealer or principal related derivatives are carried at their estimated fair values. Substantially all of AIG's derivative positions at March 31, 1994 were dealer or principal related and thus accounted for in that manner. The notional amounts represent the amounts used to calculate contractual cash flows to be exchanged and are generally not actually paid or received, except for certain contracts such as currency swaps and foreign exchange forwards. Furthermore, other factors such as offsetting transactions, master netting agreements and collateral must all be thoroughly considered in any measurement of risk.

The market risk of derivatives arises principally from the potential for changes in volatility, interest rates, foreign exchange rates, and equity and commodity prices. The credit risk of derivatives arises from the potential for a counterparty to default on its contractual obligations. Credit risk exists at a particular point in time when a derivative has a positive market value. Derivatives, other than options, may be in an unrealized

gain or unrealized loss position depending on market rates and contract terms. Purchased options contracts with positive market values have credit risk.

AIGFP conducts, primarily as principal, an interest rate, currency, equity and commodity derivative products business and also enters into long dated forward foreign exchange, option, synthetic security, liquidity facility and investment contract transactions.

AIGFP generally manages its exposures by taking offsetting positions, including swaps, options, bonds, forwards or futures contracts. AIGFP manages its credit risk by internally evaluating the creditworthiness of counterparties and consulting with widely accepted credit rating services. In addition, AIGFP enters into master netting agreements, which incorporate the right of set-off to provide for the net settlement of covered contracts with the same counterparty, in the event of default or other cancellation of the agreement. Also, AIGFP requires collateral on certain transactions based on the creditworthiness of the counterparty.

AIGFP monitors and controls its risk exposure on a daily basis through financial, credit and legal reporting systems and, accordingly, 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 as of March 31, 1994.

Revenues generated by AIGFP during 1994 were primarily comprised of interest rate swaps activity, which represented over 50 percent of total AIGFP revenues.

AIGTG engages as principal in trading activities in certain foreign exchange, precious and base metals, petroleum and petroleum products and natural gas markets. AIGTG is exposed to risk of loss through the potential non-performance of a counterparty on its contractual obligations (credit risk) and through the potential for changes in value due to fluctuations in interest and foreign exchange rates and in prices of commodities (market risk). Generally, AIGTG manages its credit risk through credit reviews, transaction limits and/or margin requirements. AIGTG manages the market risk of its various positions and transactions through offsetting transactions such as purchasing and selling options and forward and futures contracts.

Revenues generated by AIGTG for 1994 were primarily comprised of foreign exchange activities, which represented over 60 percent of total AIGTG revenues.

ILFC primarily engages in the acquisition of new and used commercial jet aircraft and the leasing and sale of such aircraft to airlines around the world. In addition, ILFC is engaged in the remarketing of commercial jets for airlines and financial institutions. ILFC is exposed to loss through non-performance of aircraft lessees and through owning and committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. At March 31, 1994, only 4 of 250 aircraft owned were not leased. Currently, 79.4 percent of the fleet is leased to foreign carriers.

See also the discussion under "Capital Resources" and "Liquidity" herein.

Financial services operating income represented 14.3 percent of AIG's income before income taxes and the cumulative effect of accounting changes in 1994. This compares to 13.5 percent in 1993.

Other Operations

In the first three months of 1994, AIG's equity in income of minority-owned insurance operations was \$7.3 million compared to \$8.9 million in the same period of 1993. The decline results from the impact of the previously mentioned catastrophe losses. The equity interest in insurance companies represented 1.1 percent of income before income taxes and the cumulative effect of accounting changes in 1994, compared to 1.4 percent in 1993.

Other realized capital losses amounted to \$10.2 million and \$3.2 million in 1994 and 1993, respectively.

Other income (deductions)-net includes AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, minority interest in certain consolidated companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In the first three months of 1994, net deductions amounted to \$24.0 million. In the same period of 1993, net deductions amounted to \$21.6 million.

Income before income taxes and the cumulative effect of accounting changes amounted to \$678.4 million in the first three months of 1994 and \$640.3 million in the same period of 1993.

In the first three months of 1994, AIG recorded a provision for income taxes of \$172.8 million compared to the provision of \$165.0 million in the same period of 1993. These provisions represent effective tax rates of 25.5 percent and 25.8 percent in the respective periods. Income before the cumulative effect of accounting changes amounted to \$505.6 million in the first three months of 1994 and \$475.2 million in the same period of 1993. The increase in net income resulted from those factors described above.

At January 1, 1993, AIG's equity in income of minority-owned insurance operations was positively impacted by the cumulative effect of accounting changes on such operations from the adoption of Statement of Accounting Standards No. 109 "Accounting for Income Taxes" which was partially offset by the adoption of Statement of Financial Accounting Standards No. 106 "Employer's Accounting for Postretirement Benefits Other than Pension Plans". AIG's equity in the cumulative effect of such accounting changes was a net benefit of \$20.7 million.

Net income amounted to \$505.6 million in the first three months of 1994 and \$495.9 million in the same period of 1993. The increase in net income in 1994 over that of 1993 resulted from those factors described above.

Capital Resources

At March 31, 1994, AIG had total capital funds of \$15.54 billion and total borrowings of \$15.56 billion.

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 Total borrowings at March 31, 1994 and December 31, 1993 were as follows:

(in thousands)

	March 31, 1994	December 31, 1993
Borrowings under Obligations of Guaranteed Investment Agreements AIGFP		
	\$ 6,021,300	\$ 6,735,600
Commercial Paper:		
AIG Funding, Inc.	824,700	891,700
ILFC*	1,621,000	1,442,400
AICCO	666,100	638,200
AIGFP	40,600	176,600
Total	3,152,400	3,148,900
Medium Term Notes:		
ILFC*	1,740,200	1,753,700
AIG	285,000	295,000
Total	2,025,200	2,048,700
Notes and Bonds Payable:		
ILFC*	3,000,000	2,550,000
AIGFP	754,200	521,400
AIG: Lire bonds	159,100	159,100
Zero coupon notes	60,700	59,100
Total	3,974,000	3,289,600
Loans and Mortgages Payable (\$153,800 and \$196,900 were not guaranteed by AIG in 1994 and 1993.)	384,900	466,300
Total Borrowings	15,557,800	15,689,100
Borrowings not guaranteed by AIG	6,515,000	5,943,000
Matched GIA borrowings	6,021,300	6,735,600
	12,536,300	12,678,600
Remaining borrowings of AIG	\$ 3,021,500	\$ 3,010,500

* AIG does not guarantee or support these borrowings.

Guaranteed investments agreements (GIAs) serve as the source of proceeds for AIGFP's investments in a diversified portfolio of securities. (See also the discussions under "Operational Review" and "Liquidity" herein.)

AIG Funding, Inc. intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of commercial paper is subject to the approval of AIG's Board of Directors. ILFC, A.I. Credit Corp. (AICCO) and AIGFP issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's or ILFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. AIG guarantees AIGFP's commercial paper.

ILFC primarily uses the proceeds of its borrowings to acquire new and used commercial jet aircraft to lease and/or remarket to airlines around the world. During 1994, ILFC increased the aggregate principal amount outstanding of its medium term and term notes to \$4.74 billion at March 31, 1994, a net increase of \$436.5 million. At March 31, 1994, ILFC had \$350 million in aggregate principal amount of debt securities registered for issuance from time to time. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During 1994, AIG did not issue any new medium term notes. During 1994, \$10.0 million of previously issued notes matured. At March 31, 1994, AIG had \$247.0 million in aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds have increased \$312.8 million in the first three months of 1994. Unrealized appreciation of investments, net of taxes, decreased \$116.4 million, primarily resulting from the bond market trends worldwide and domestic equity markets. Unrealized appreciation of investments, net of taxes, is now subject to increased volatility resulting from the changes in the market value of bonds available for sale. The cumulative translation adjustment loss, net of taxes, decreased \$20.6 million as a result of the general weakness of the U.S. dollar. Retained earnings increased \$473.9 million, resulting from net income less dividends.

Commencing in the first quarter of 1994, AIG repurchased shares of its common stock in the open market. Through March 31, 1994, AIG had repurchased 822,500 common shares costing \$68.5 million. Through the end of April 1994, the common shares purchased year to date were 1.21 million costing \$100.7 million.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At March 31, 1994 there were no significant statutory or regulatory issues which would impair AIG's financial condition or results of operations. (See also the discussion under "Liquidity" herein.)

Liquidity

At March 31, 1994, AIG's consolidated invested assets included approximately \$5.06 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 1994 amounted to approximately \$2.59 billion.

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.

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance pretax operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately \$2.0 billion in pretax operating cash flow during the first three months of 1994. The underwriting cash flow approximated \$1.1 billion in the first three months of 1994. Underwriting cash flow represents periodic premium collections, including policyholders' contracts deposits, as well as paid loss recoveries less reinsurance premiums, losses, benefits, and acquisition and operating expenses paid. 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 operations generated approximately \$860 million in investment income cash flow during this period of 1994. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains.

The combined insurance pretax cash flow coupled with the cash and short-term investments of \$4.57 billion provided the insurance operations with a significant amount of liquidity. 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 and collateral and guaranteed loans. With this liquidity coupled with proceeds of approximately \$3.2 billion from the maturities, sales and redemptions of fixed income securities and from the sales of marketable equity securities, AIG purchased approximately \$4.3 billion of fixed income securities and marketable equity securities. Additionally, over \$840 million were disbursed for mortgage loans on real estate, policy and collateral loans. Over \$700 million of this was for new policy loans issued as a result of domestic life insurance operations associated with corporate owned life insurance.

The following table is a summary of AIG's invested assets, including investment income due and accrued and real estate, at March 31, 1994 and December 31, 1993:

(dollars in thousands)

	March 31, 1994		December 31, 1993	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
General insurance	\$ 22,594,400	29.6%	\$ 22,573,800	33.2%
Life insurance	23,612,600	31.0	22,037,300	32.4
Financial services	29,606,300	38.8	22,957,300	33.7
Other	422,700	0.6	464,100	0.7
Total	\$ 76,236,000	100.0%	\$ 68,032,500	100.0%

The following tables are summaries of the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at March 31, 1994 and December 31, 1993:

(dollars in thousands)

March 31, 1994	General	Life	Total	Percent of Total	Percent Domestic	Distribution Foreign
Bonds:						
Taxable	\$ 4,223,400	\$13,626,100	\$17,849,500	38.6%	37.6%	62.4%
Tax-exempt	12,548,000	---	12,548,000	27.2	100.0	--
Short-term investments, including time deposits, and cash	1,534,000	3,032,700	4,566,700	9.9	19.2	80.8
Common stocks	2,787,600	1,817,500	4,605,100	10.0	30.1	69.9
Mortgage loans on real estate, policy and collateral loans	41,500	3,417,300	3,458,800	7.5	40.6	59.4
Real estate	331,700	592,700	924,400	2.0	20.0	80.0
Investment income due and accrued	404,100	343,100	747,200	1.6	53.8	46.2
Other invested assets	724,100	783,200	1,507,300	3.2	48.5	51.5
Total	\$22,594,400	\$23,612,600	\$46,207,000	100.0%	52.5%	47.5%

(dollars in thousands)

December 31, 1993	General	Life	Total	Percent of Total	Percent Distribution Domestic	Percent Distribution Foreign
Bonds:						
Taxable	\$ 4,234,800	\$13,387,800	\$17,622,600	39.5%	38.4%	61.6%
Tax-exempt	12,346,700	---	12,346,700	27.7	100.0	--
Short-term investments, including						
time deposits, and cash	1,820,500	2,878,600	4,699,100	10.6	23.1	76.9
Common stocks	2,761,800	1,527,200	4,289,000	9.6	36.1	63.9
Mortgage loans on real estate,						
policy and collateral loans	96,300	2,678,200	2,774,500	6.2	24.6	75.4
Real estate	284,300	572,000	856,300	1.9	16.2	83.8
Investment income due and accrued	429,700	363,900	793,600	1.8	54.0	46.0
Other invested assets	599,700	629,600	1,229,300	2.7	53.2	46.8
Total	\$22,573,800	\$22,037,300	\$44,611,100	100.0%	53.0%	47.0%

With respect to bonds, AIG's strategy is to invest in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations.

Approximately two-thirds of the fixed maturity investments are domestic securities. Approximately 43 percent of such domestic securities were rated AAA and approximately two percent were below investment grade.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. However, credit quality rating services similar to the aforementioned rating agencies are not available in all overseas locations. Thus, AIG annually reviews the credit quality of the nonrated fixed income investment, including mortgages, in its foreign portfolio. AIG applies a scale similar to that of Moody's and S&P to the rating of these securities. Coupling the ratings of this internal review with those of the independent agencies indicates that approximately 49 percent of the foreign fixed income investments were rated AAA and approximately one percent were deemed below investment grade at December 31, 1993. AIG believes that there has been no significant change in these ratings through March 31, 1994.

Although AIG's fixed income insurance portfolios contain minor amounts of securities below investment grade, potentially any fixed income security is subject to downgrade for a variety of reasons subsequent to any balance sheet date.

Approximately 6 percent of the fixed maturities portfolio are Collateralized Mortgage Obligations (CMOs). All the CMOs are investment grade and approximately 95 percent of the CMOs are backed by various U.S. government agencies. Thus, credit risk is minimal.

There are no interest only or principal only CMOs. 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.

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from currency risk and interest rate risk, AIG and its insurance subsidiaries consider entering into derivative transactions. To date, such activities have been insignificant.

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

Mortgage loans on real estate, policy, collateral and guaranteed loans comprise 7.5 percent of AIG's insurance invested assets at March 31, 1994. AIG's insurance holdings of real estate mortgages amounted to \$1.36 billion of which 35.6 percent was domestic. At March 31, 1994, no domestic mortgages and only a nominal amount of foreign mortgages were in default. At March 31, 1994, AIG's insurance holdings of collateral loans amounted to \$451.2 million, all of which were foreign. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent.

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.

There exist in certain jurisdictions significant regulatory and/or foreign governmental barriers 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.

The following table is a summary of the composition of AIG's financial services invested assets, including real estate, at March 31, 1994 and December 31, 1993:

(dollars in thousands)

	March 31, 1994		December 31, 1993	
	Invested Assets	Percent of Total	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	\$ 9,188,400	31.0%	\$ 8,555,400	37.3%
Securities available for sale, at market value	5,669,500	19.1	4,991,100	21.7
Trading securities, at market value	2,016,500	6.8	2,516,200	11.0
Securities purchased under agreements to resell, at contract value	2,771,300	9.4	2,737,500	11.9
Receivables from securities brokers and dealers	1,920,600	6.5	1,328,400	5.8
Spot commodities, at market value	908,400	3.1	764,200	3.3
Unrealized gain on interest rate and currency swaps, options and forward transactions*	5,670,500	19.2	--	--
Net unrealized gain on interest rate and currency swaps, options and forward transactions	--	--	640,100	2.8
Other, including short-term investments	1,461,100	4.9	1,424,400	6.2
Total	\$29,606,300	100.0%	\$22,957,300	100.0%

* See also the discussion under "Accounting Standards: Standards Adopted in 1994" herein.

As previously discussed, the cash for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financing. The primary sources for the repayment of this debt and the interest expense thereon are the lease receipts received and proceeds from the sale of flight equipment. During 1994, ILFC obtained net financing of \$595.5 million for the acquisition of flight equipment costing \$789.8 million.

Securities available for sale, and securities purchased under agreements to resell are primarily purchased with the proceeds of AIGFP's GIA financing. The securities purchased involve varying degrees of credit risk. The average credit rating of AIGFP's

securities available for sale at March 31, 1994 was AA. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP generally takes possession of securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring customer credit exposure and requiring additional collateral to be deposited when deemed necessary.

AIGFP for its own account enters into interest rate, currency, equity and commodity swaps and forward commitments. AIGFP evaluates the creditworthiness of its counterparties by internal credit evaluation and consultation with widely accepted credit-rating services. The average credit rating of AIGFP's counterparties as a whole, as measured by AIGFP, was AA- at March 31, 1994. Swaps, options and forward transactions are carried at estimated fair value based on the use of valuation models that utilize criteria such as current interest, foreign exchange and volatility rates, as applicable, with the resulting unrealized gains or losses reflected in the current period's income. These values are also reviewed by reference to the market levels at which AIGFP hedges its transactions, and are adjusted as deemed appropriate by management. The recorded values may be different than the values that might be realized if AIGFP were to sell or close out the transactions because of limited liquidity for these instruments. (See also the discussion under "Accounting Standards: Standards Adopted in 1994" herein.)

AIGTG acts as principal in certain foreign exchange, precious and base metals, petroleum and petroleum products and natural gas trading activities. AIGTG owns and may maintain substantially hedged inventories in the commodities in which it trades. AIGTG supports its trading activities largely through payables to securities brokers and dealers, securities sold under agreements to repurchase and spot commodities sold but not yet purchased. Thus, AIGTG's liquidity is provided through its high volume and rapid turnover activities in trading, market making and hedging. AIGTG uses derivatives to hedge various trading positions and transactions from adverse movement in interest rates, exchange rates and commodity prices.

Recent Developments

In 1989, the National Association of Insurance Commissioners (NAIC) adopted the "NAIC Solvency Policing Agenda for 1990". Included in this agenda was the development of Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. AIG believes that the development of RBC standards is a positive step for the insurance industry but further believes the standards in their present form may lead to an inefficient deployment of

industry capital. As experience is gained with the application of RBC standards, it is likely that adjustments to the formula will be made.

Standards for the life RBC formula and a model act have been approved by regulators and were effective with the 1993 statutory financial statements. At December 31, 1993 and March 31, 1994, the adjusted capital of each of AIG's four domestic life companies exceeded each of their RBC standards by multiples approximating from two to more than four.

RBC standards for property and casualty insurers have been finalized and are effective with the 1994 statutory financial statements to be filed in 1995. Applying these RBC standards to AIG's domestic general operations at December 31, 1993 and March 31, 1994 reveals that the capital of each of the domestic general insurance companies exceeded the RBC requirements. Additionally, no AIG company is on any regulatory or similar "watch list".

In 1992, domestic life insurance companies were required for regulatory purposes to adopt two investment reserves, the Asset Valuation Reserve (AVR) and the Interest Maintenance Reserve (IMR). The AVR is formula based and applies to all invested assets which are subject to either credit or market risk. The IMR defers realized capital gains and losses on the sale of fixed maturities and mortgage loans. The realized gains and losses are subsequently amortized into investment income over the original term of the disposed assets. The impact of these reserves on the separately reported statutory income of certain domestic life companies may be significant in 1994. However, there was no impact on AIG's GAAP consolidated life insurance operating income presented herein.

Accounting Standards

Standards adopted in 1994:

In March 1992, the Financial Accounting Standards Board (FASB) issued Interpretation No. 39 "Offsetting of Amounts Related to Certain Contracts" (Interpretation), which is effective for fiscal years beginning after December 15, 1993. The Interpretation requires that unrealized gains and losses on swaps, forwards, options and similar contracts be recognized as assets and liabilities. Previously, AIG's policy was to record such unrealized gains and losses on a net basis in the consolidated balance sheet. The Interpretation allows the netting of such unrealized gains and losses with the same counterparty when they are included under a master netting arrangement with the counterparty and the contracts are reported at market value.

Although there was no effect on AIG's operating income upon the adoption of the Interpretation, AIG adopted this interpretation effective January 1, 1994 and now presents certain of its financial services assets and liabilities, primarily unrealized gain (loss) on interest rate and currency swaps, options and forward transactions, on a gross basis. Thus, both consolidated assets and liabilities have increased. The effect of presenting these assets and liabilities on a gross basis on AIG's consolidated balance sheet was not significant. Prior years' balance sheets are not required to be restated.

In November of 1992, FASB issued Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Post-employment Benefits" (FASB 112). FASB 112 established accounting standards for employers who provide benefits to former or inactive employees after employment but before retirement. FASB 112 was effective January 1, 1994 and had no significant effect on AIG's results of operations or financial condition.

Standards to be adopted in the future:

In May 1993, FASB issued Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan" (FASB 114). FASB 114 addresses the accounting by all creditors for impairment of certain loans. The impaired loans are to be measured at the present value of all expected future cash flows. The present value may be determined by discounting the expected future cash flows at the loan's effective rate or valued at the loan's observable market price or valued at the fair value of the collateral if the loan is collateral dependent. This methodology is not expected to produce a material effect on AIG's results of operations or financial condition.

FASB 114 will be effective for the 1995 financial statements. AIG does not anticipate adoption prior to the effective date.

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

- (a) Exhibits
See accompanying Exhibit Index.
- (b) There were no reports on Form 8-K filed for the three months ended March 31, 1994.

SIGNATURES

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

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

s/s Howard I. Smith

Howard I. Smith
Senior Vice President - Comptroller
(Chief Accounting Officer)

Dated: May 12, 1994

EXHIBIT INDEX

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

AMERICAN INTERNATIONAL GROUP, INC.
 COMPUTATION OF EARNINGS PER SHARE
 (in thousands, except per share amounts)

	THREE MONTHS ENDED MARCH 31,	
	1994	1993
	----	----
Average outstanding shares used in the computation of per share earnings:		
Common stock (a)	337,391	337,394
Common stock in treasury (a)	(19,935)	(19,910)
	-----	-----
	317,456	317,484
	=====	=====
Income before cumulative effect of accounting changes	\$ 505,618	\$ 474,406
Cumulative effect of accounting changes: (b)		
Minority-owned insurance operations	-	20,695
	-----	-----
Net income (applicable to common stock) (c)	\$ 505,618	\$ 495,101
	=====	=====
Earnings per common share:		
Income before cumulative effect of accounting changes	\$ 1.59	\$ 1.49
Cumulative effect of accounting changes:		
Minority-owned insurance operations	-	0.07
	-----	-----
Net income	\$ 1.59	\$ 1.56
	=====	=====

(a) 1993 adjusted for a 50 percent common stock split in the form of a common stock dividend paid July 30, 1993. The effects of all other common stock equivalents are not significant.

(b) Represents a net benefit for the cumulative effect of the adoption of accounting pronouncements related to postretirement benefits (FASB 106) and income taxes (FASB 109) by minority-owned insurance operations in 1993.

(c) After deduction of preferred stock dividend of \$820,000 in 1993.

AMERICAN INTERNATIONAL GROUP, INC.
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands, except ratios)

	THREE MONTHS ENDED MARCH 31,	
	1994	1993
	----	----
Income before income taxes and cumulative effect of accounting changes	\$ 678,410	\$ 640,271
Less - Equity income of less than 50% owned persons	8,408	10,274
Add - Dividends from less than 50% owned persons	971	1,333
	-----	-----
	670,973	631,330
Add -		
Fixed charges	358,691	350,131
Less -		
Capitalized interest	11,345	11,333
	-----	-----
Income before income taxes, cumulative effect of accounting changes and fixed charges	\$ 1,018,319	\$ 970,128
	=====	=====
Fixed charges:		
Interest costs	\$ 341,983	\$ 330,487
One-third rental expenses *	16,708	19,644
	-----	-----
Total fixed charges	\$ 358,691	\$ 350,131
	=====	=====
Ratio of earnings to fixed charges	2.84	2.77

* The proportion deemed representative of the interest factor.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 5.63 and 5.91 for 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.