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

FORM 10-Q

[X] 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 JUNE 30, 2001 COMMISSION FILE NUMBER 1-8787

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

DELAWARE	13-2592361
(STATE OR OTHER JURISDICTION OF INCORPORATION 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 June 30, 2001: 2,331,306,414.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET
(IN MILLIONS)
(UNAUDITED)

JUNE 30, DECEMBER 31, 2001 2000 ----------- ----------
-- ASSETS: Investments and cash: Fixed maturities:
Bonds available for sale, at market value (amortized
cost: 2001 -- $109,366; 2000 -- $89,461)............
$111,101 $ 89,631 Bonds held to maturity, at amortized
cost (market value: 2000 --
$12,053)........................... -- 11,533 Bonds
trading securities, at market value (cost: 2001 --
$823; 2000 -- $838)....................... 822 846
Equity securities: Common stocks (cost: 2001 --
$6,257; 2000 --
$6,371).................................. 5,738
6,125 Non-redeemable preferred stocks (cost: 2001 --
$1,312; 2000 -- $1,166).................... 1,215
1,056 Mortgage loans on real estate, net of allowance
(2001 -- $92; 2000 -- $87)..........................
7,330 7,127 Policy
Loans.. 2,862
3,032 Collateral and guaranteed loans, net of
allowance (2001 -- $40; 2000 --
$40).......................... 2,079 2,084 Financial
services and asset management assets: Flight equipment
primarily under operating leases, net of accumulated
depreciation (2001 -- $3,098; 2000 --
$2,723).................................. 21,674
19,325 Securities available for sale, at market value
(cost: 2001 -- $16,995; 2000 --
$14,636).................. 17,027 14,669 Trading
securities, at market value................. 6,523
7,347 Spot commodities, at market
value.................... 316 363 Unrealized gain on
interest rate and currency swaps, options and forward
transactions................... 10,746 10,235 Trading
assets.................................... 7,503
7,045 Securities purchased under agreements to resell,
at contract
value.................................... 17,700
14,991 Other invested
assets................................ 18,017 13,394
Short-term investments, at cost (approximates market
value)..
6,295 5,831
Cash..
248 256 -------- -------- Total investments and
cash..................... 237,196 214,890 Investment
income due and accrued....................... 2,423
2,420 Premiums and insurance balances receivable, net
of allowance (2001 -- $189; 2000 --
$170)................ 12,898 11,832 Reinsurance
assets..................................... 24,132
23,135 Deferred policy acquisition
costs........................ 10,564 10,189
Investments in partially-owned
companies................. 362 251 Real estate and
other fixed assets, net of accumulated depreciation
(2001 -- $2,266; 2000 -- $2,101).......... 3,602 3,578
Separate and variable
accounts........................... 30,551 31,328
Other
assets...
11,463 8,954 -------- -------- Total
assets.................................. $333,191
$306,577 ======== ========

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	JUNE 30, 2001	DECEMBER 31, 2000
LIABILITIES:		
Reserve for losses and loss expenses	$ 40,842	$ 40,613
Reserve for unearned premiums	12,904	12,510
Future policy benefits for life and accident and health insurance contracts	40,333	38,165
Policyholders' contract deposits	51,211	47,209
Other policyholders' funds	3,488	3,475
Reserve for commissions, expenses and taxes	3,132	2,807
Insurance balances payable	3,645	2,380
Funds held by companies under reinsurance treaties	1,851	1,435
Income taxes payable:		
Current	184	197
Deferred	2,798	1,873
Financial services and asset management liabilities:		
Borrowings under obligations of guaranteed investment agreements	14,977	13,595
Securities sold under agreements to repurchase, at contract value	10,736	11,308
Trading liabilities	4,839	4,352
Securities and spot commodities sold but not yet purchased, at market value	6,574	7,701
Unrealized loss on interest rate and currency swaps, options and forward transactions	7,948	8,581
Trust deposits and deposits due to banks and other depositors	2,179	1,895
Commercial paper	4,139	4,259
Notes, bonds and loans payable	25,216	17,923
Commercial paper	2,179	1,705
Notes, bonds, loans and mortgages payable	2,845	2,749
Separate and variable accounts	30,551	31,328
Minority interest	1,541	1,465
Other liabilities	15,246	8,086
Total liabilities	289,358	265,611
Preferred shareholders' equity in subsidiary companies	1,178	1,347
CAPITAL FUNDS:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2001 -- 2,475,663,919; 2000 -- 2,475,663,919	6,189	6,189
Additional paid-in capital	2,564	2,668
Retained earnings	37,289	34,304
Accumulated other comprehensive income (loss)	(1,856)	(2,136)
Treasury stock, at cost; 2001 -- 144,357,505; 2000 -- 142,950,798 shares of common stock	(1,531)	(1,406)
Total capital funds	42,655	39,619
Total liabilities and capital funds	$333,191	$306,577

See Accompanying Notes to Financial Statements.

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

	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000
General insurance operations:				
Net premiums written	$ 9,920	$ 8,730	$5,055	$4,504
Change in unearned premium reserve	(456)	(221)	(313)	(102)
Net premiums earned	9,464	8,509	4,742	4,402
Net investment income	1,423	1,323	707	660
Realized capital gains (losses)	(58)	9	(37)	(3)
	10,829	9,841	5,412	5,059
Losses and loss expenses incurred	7,091	6,394	3,519	3,306
Underwriting expenses	1,877	1,676	983	869
	8,968	8,070	4,502	4,175
Operating income	1,861	1,771	910	884
Life insurance operations:				
Premium income	7,355	6,665	3,849	3,387
Net investment income	3,872	3,411	1,951	1,740
Realized capital losses	(21)	(58)	(3)	(29)
	11,206	10,018	5,797	5,098
Death and other benefits	3,313	2,695	1,944	1,448
Increase in future policy benefits	3,961	3,949	1,763	1,890
Acquisition and insurance expenses	1,926	1,725	1,023	894
	9,200	8,369	4,730	4,232
Operating income	2,006	1,649	1,067	866
Financial services operating income	701	585	372	304
Asset management operating income	211	210	100	106
Other realized capital losses	(17)	(6)	(5)	(2)
Other income (deductions) -- net	(105)	(122)	(59)	(62)
Income before income taxes, minority interest and cumulative effect of an accounting change	4,657	4,087	2,385	2,096
Income taxes -- Current	765	712	403	404
-- Deferred	604	501	301	219
	1,369	1,213	704	623
Income before minority interest and cumulative effect of an accounting change	3,288	2,874	1,681	1,473
Minority interest	(123)	(121)	(54)	(66)
Income before cumulative effect of an accounting change	3,165	2,753	1,627	1,407
Cumulative effect of an accounting change, net of tax	(6)	--	--	--
Net income	$ 3,159	$ 2,753	$1,627	$1,407
Earnings per common share:				
Basic				
Income before cumulative effect of an accounting change	$ 1.35	$ 1.19	$ 0.69	$ 0.61
Net income	$			

1.35 $ 1.19 $ 0.69 $ 0.61 ======= ======= ======
====== Diluted Income before cumulative effect of an
accounting
change.. $
1.34 $ 1.17 $ 0.69 $ 0.60 ======= ======= ======
====== Net
income... $
1.34 $ 1.17 $ 0.69 $ 0.60 ======= ======= ======
====== Cash dividends per common
share........................ $ 0.074 $ 0.067 $0.037
$0.033 ======= ======= ====== ====== Average shares
outstanding:
Basic...
2,333 2,317 2,332 2,313 ------- ------- ------ -----
-
Diluted...
2,358 2,343 2,358 2,339 ------- ------- ------ -----
-

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

SIX MONTHS ENDED JUNE 30,	2001	2000
Cash Flows From Operating Activities:		
Net Income	$ 3,159	$ 2,753
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	2,480	3,008
Premiums and insurance balances receivable and payable -- net	199	(759)
Reinsurance assets	(997)	(324)
Deferred policy acquisition costs	(375)	(383)
Investment income due and accrued	(3)	(106)
Funds held under reinsurance treaties	416	14
Other policyholders' funds	13	273
Current and deferred income taxes -- net	592	383
Reserve for commissions, expenses and taxes	325	(33)
Other assets and liabilities -- net	436	(894)
Trading assets and liabilities -- net	29	(1,898)
Trading securities, at market value	824	521
Spot commodities, at market value	47	153
Net unrealized gain on interest rate and currency swaps, options and forward transactions	(1,144)	(1,159)
Securities purchased under agreements to resell	(2,709)	1,123
Securities sold under agreements to repurchase	(572)	(482)
Securities and spot commodities sold but not yet purchased, at market value	(1,127)	1,023
Realized capital losses	96	55
Equity in income of partially-owned companies and other invested assets	(291)	(45)
Depreciation expenses, principally flight equipment	631	557
Change in cumulative translation adjustments	(311)	4
Other -- net	(238)	(71)
Total Adjustments	(1,679)	960
Net cash provided by operating activities	$ 1,480	$ 3,713

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS -- (CONTINUED)
(IN MILLIONS)
(UNAUDITED)

SIX MONTHS ENDED JUNE 30,	2001	2000
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed	$ --	$ 581
Cost of bonds, at market sold	15,864	11,813
Cost of bonds, at market matured or redeemed	3,282	3,748
Cost of equity securities sold	2,897	2,811
Realized capital losses	(96)	(55)
Purchases of fixed maturities	(27,252)	(21,075)
Purchases of equity securities	(2,905)	(3,093)
Mortgage, policy and collateral loans granted	(1,559)	(1,103)
Repayments of mortgage, policy and collateral loans	1,572	904
Sales of securities available for sale	1,825	2,894
Maturities of securities available for sale	1,002	1,102
Purchases of securities available for sale	(5,180)	(4,273)
Sales of flight equipment	68	79
Purchases of flight equipment	(2,804)	(2,146)
Net additions to real estate and other fixed assets	(271)	(240)
Sales or distributions of other invested assets	3,061	2,279
Investments in other invested assets	(3,229)	(2,676)
Change in short-term investments	(464)	588
Investments in partially-owned companies	(110)	--
Net cash used in investing activities	(14,299)	(7,862)
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits	4,002	2,161
Change in trust deposits and deposits due to banks and other depositors	284	(190)
Change in commercial paper	354	975
Proceeds from notes, bonds, loans and mortgages payable	12,224	5,537
Repayments on notes, bonds, loans and mortgages payable	(4,842)	(4,447)
Proceeds from guaranteed investment agreements	9,201	3,772
Maturities of guaranteed investment agreements	(7,819)	(2,871)
Redemption of subsidiary company preferred stock	(185)	--
Proceeds from common stock issued	49	85
Proceeds from subsidiary company preferred stock issued	--	350
Cash dividends to shareholders	(174)	(155)
Acquisition of treasury stock	(217)	(920)
Other -- net	(66)	34
Net cash provided by financing activities	12,811	4,331
Change in cash	(8)	182
Cash at beginning of period	256	132
Cash at end of period	$ 248	$ 314

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(IN MILLIONS)
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Net income	$3,159	$2,753	$1,627	$1,407
Other comprehensive income:				
Unrealized appreciation (depreciation) of investments -- net of reclassification adjustments	358	(579)	(625)	(594)
Deferred income tax (expense) benefit on changes	(209)	199	190	222
Foreign currency translation adjustments(a)	(313)	4	(215)	(45)
Applicable income tax benefit on changes	68	24	46	5
Cumulative effect of accounting change, net of tax(b)	179	--	--	--
Net derivative gains (losses) arising from cash flow hedging activities	(123)	--	17	--
Deferred income tax expense on changes	(19)	--	(13)	--
Cumulative effect of accounting change, net of tax(c)	339	--	--	--
Total	280	(352)	(600)	(412)
Comprehensive income	$3,439	$2,401	$1,027	$ 995

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

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

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

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

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2001
(UNAUDITED)

a) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair presentation of the results shown. All material intercompany accounts and transactions have been eliminated. For further information, refer to the Annual Report on Form 10-K of AIG for the year ended December 31, 2000.

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

Cash dividends per common share reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000. The quarterly dividend rate per common share, commencing with the dividend paid September 14, 2001 is $0.042.

c) Cash flow information for the six month periods ended June 30, 2001 and 2000 is as follows:

	2001	2000
	(IN MILLIONS)	
Income taxes paid	$ 703	$ 718
Interest paid	$1,563	$1,187

d) Segment Information:

The following table summarizes the operations by major operating segment for the first six months and second quarter of 2001 and 2000 (in millions):

OPERATING SEGMENTS	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Revenues(1):				
General Insurance	$10,829	$ 9,841	$ 5,412	$ 5,059
Life Insurance	11,206	10,018	5,797	5,098
Financial Services	2,100	1,870	1,075	975
Asset Management	611	593	299	296
Other	(17)	(6)	(5)	(2)
Total	$24,729	$22,316	$12,578	$11,426
Operating income:				
General Insurance	$ 1,861	$ 1,771	$ 910	$ 884
Life Insurance	2,006	1,649	1,067	866
Financial Services	701	585	372	304
Asset Management	211	210	100	106
Other	(122)	(128)	(64)	(64)
Total	$ 4,657	$ 4,087	$ 2,385	$ 2,096

----

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

The following table summarizes AIG's general insurance operations by major reporting group for the first six months and second quarter of 2001 and 2000 (in millions):

GENERAL INSURANCE	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000
Revenues:				
Domestic Brokerage Group	$ 6,127	$5,195	$3,081	$2,694
Foreign General	3,058	3,161	1,498	1,610
Other	1,644	1,485	833	755
Total	$10,829	$9,841	$5,412	$5,059
Operating income before realized capital gains (losses)(1):				
Domestic Brokerage Group	$ 1,084	$ 974	$ 531	$ 515
Foreign General	591	502	292	241
Other	244	286	124	131
Total	$ 1,919	$1,762	$ 947	$ 887

----

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

The following table summarizes AIG's life insurance operations by major reporting group for the first six months and second quarter of 2001 and 2000 (in millions):

LIFE INSURANCE	SIX MONTHS ENDED JUNE 30, 2001	SIX MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 2001	THREE MONTHS ENDED JUNE 30, 2000
Revenues:				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	$ 5,085	$ 4,676	$2,622	$2,408
American Life Insurance Company	2,784	2,750	1,382	1,378
Domestic Life	2,862	2,364	1,449	1,198
Other	475	228	344	114
Total	$11,206	$10,018	$5,797	$5,098
Operating income before realized capital gains (losses)(1):				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	$ 779	$ 673	$ 416	$ 360
American Life Insurance Company	438	372	228	190
Domestic Life	731	625	367	326
Other	79	37	59	19
Total	$ 2,027	$ 1,707	$1,070	$ 895

----

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

The following table summarizes AIG's financial services operations by major reporting group for the first six months and second quarter of 2001 and 2000 (in millions):

FINANCIAL SERVICES	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Revenues:				
International Lease Finance Corporation	$1,278	$1,157	$ 657	$607
AIG Financial Products Corp.	519	451	271	239
AIG Trading Group Inc.	59	135	20	62
Other	244	127	127	67
Total	$2,100	$1,870	$1,075	$975
Operating income:				
International Lease Finance Corporation	$ 344	$ 310	$ 184	$171
AIG Financial Products Corp.	354	278	189	139
AIG Trading Group Inc.	14	35	7	13
Other	(11)	(38)	(8)	(19)
Total	$ 701	$ 585	$ 372	$304

e) Statement of Accounting Standards No. 130 "Comprehensive Income" (FASB 130) establishes standards for reporting comprehensive income and its components as part of capital funds. The reclassification adjustments with respect to available for sale securities were $(96) million and $(55) million for the first six months and $(45) million and $(34) million for the second quarter of 2001 and 2000, respectively.

f) Accounting Standards:

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

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

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

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

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

AIG (excluding its two trading operations, AIGFP and AIGTG) uses derivative instruments (principally swap and forward contracts) to hedge risk exposures to interest rate and foreign currency risks. These risks arise primarily from available-for-sale fixed income securities, debt, policyholder account balance liabilities associated with guaranteed investment contracts and net investments in foreign operations. Other hedging activities, such as those involving forecasted transactions or equity securities, are not significant. During the first six months of 2001, there were no hedges that were discontinued or otherwise no longer qualify as hedges under FASB 133. With respect to fair value hedges, net income for the first six months reflected a net $3 million loss from hedge ineffectiveness. With respect to cash flow hedges, such ineffectiveness amounted to a net loss of less than $1 million. During the first six months of 2001, there were minor reclassifications to earnings from other comprehensive income under cash flow hedge accounting. These reclassifications were connected to programs of synthetically converting certain investment securities, debt issuances or policyholder account balance liabilities associated with guaranteed investment contracts, from a floating interest rate to a fixed interest rate. As at June 30, 2001, the maximum amount of net derivative losses to be reclassified into net income within the next twelve months is insignificant. The maximum length of time over which future cash flows are hedged is approximately 9 years.

In addition to hedging activities, AIG also uses derivative instruments with respect to investment operations, which include, among other things, writing option contracts, and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds. All changes in the market value of these derivatives are recorded in earnings. AIG bifurcates an embedded derivative where: (1) the economic characteristics of the embedded instruments are not clearly and closely related to those of the remaining components of the financial instrument; and (2) a separate instrument with the same terms as the embedded instrument meets the definition of a derivative under FASB 133.

In accordance with the transition provisions of FASB 133, AIG transferred bonds in the held to maturity, at amortized cost category into the bonds available for sale, at market value category. The amortized cost of the bonds transferred was $11.53 billion. The unrealized appreciation, net of deferred tax expense was approximately $339 million at the date of transfer and was recorded as a cumulative effect of an accounting change within other comprehensive income. Under the provisions of FASB 133, such a transfer does not affect AIG's intent nor its ability to hold current or future bonds to their maturity.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

OPERATIONAL REVIEW

GENERAL INSURANCE OPERATIONS

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

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

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

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

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

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

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

General insurance operations for the six month periods ending June 30, 2001 and 2000 were as follows:

(in millions)

	2001	2000
Net premiums written*:		
Domestic	$6,953	$5,741
Foreign	2,967	2,989
Total	$9,920	$8,730
Net premiums earned*:		
Domestic	$6,694	$5,636
Foreign	2,770	2,873
Total	$9,464	$8,509
Adjusted underwriting profit*:		
Domestic	$ 219	$ 229
Foreign	277	210
Total	$ 496	$ 439
Net investment income:		
Domestic	$1,109	

$1,031
Foreign 314
292 - -----

Total
$1,423
$1,323 - --

Operating
income
before
realized
capital
gains
(losses)*:
Domestic
$1,328
$1,260
Foreign 591
502 - -----

Total 1,919
1,762
Realized
capital
gains
(losses)
(58) 9 - --

Operating
income
$1,861
$1,771 - --

----

* Reflects the realignment of certain internal divisions in 2000.

During the first six months of 2001, net premiums written and net premiums earned increased 13.6 percent and 11.2 percent, respectively, from those of 2000. During the first six months of 2001, AIG cancelled or non-renewed approximately $225 million of business worldwide that did not meet AIG's underwriting standards.

General insurance domestic net premiums written and net premiums earned for the six month periods ended June 30, 2001 and 2000 were as follows:

(in millions)
- --

2001
2000 -

Net

premiums written:		
DBG*	$5,468	$4,290
Personal Lines	1,246	1,233
Mortgage Guaranty	239	218
Total*	$6,953	$5,741
Net premiums earned:		
DBG*	$5,181	$4,269
Personal Lines	1,273	1,147
Mortgage Guaranty	240	220
Total*	$6,694	$5,636

* Reflects the realignment of certain internal divisions in 2000.

Commencing in the latter part of 1999 and continuing through 2001, the commercial property-casualty market place has experienced rate increases. Virtually all areas of DBG have experienced rate increases. Overall, DBG's net premiums written increased $1.18 billion or 27.5 percent in the first six months of 2001 over 2000.

Personal Lines' net premiums written increased 1.1 percent or $13 million in the first six months of 2001 over 2000. The growth in 2001 primarily resulted from an increase in the number of policies issued with respect to preferred, standard and non-standard auto risks and increased rates.

Foreign general insurance net premiums written and net premiums earned declined 0.7 percent and 3.6 percent, respectively, in the first six months of 2001 when compared to the same period of 2000. Foreign general insurance operations produced 29.9 percent of the general insurance net premiums written in the first six months of 2001 and 34.2 percent in 2000.

In comparing the foreign currency exchange rates used to translate the results of AIG's foreign general operations during the first six months of 2001 to those foreign currency exchange rates used to translate AIG's foreign general results during the same period of 2000, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of the preparation of the consolidated financial statements, total general insurance net premiums written were approximately 3.0 percentage points less than they would have been if translated utilizing those foreign currency exchange rates which prevailed during that same period of 2000.

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

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

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

	2001	2000
Domestic:		
Loss Ratio	80.64	80.84
Expense Ratio	16.49	16.41
Combined Ratio	97.13	97.25
Foreign:		
Loss Ratio	61.12	63.96
Expense Ratio	30.86	28.95
Combined Ratio	91.98	92.91
Consolidated:		
Loss Ratio	74.92	75.14
Expense Ratio	20.79	20.71
Combined Ratio	95.71	95.85

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

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

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

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

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

The adjusted underwriting profits were $496 million in the first six months of 2001 and $439 million in the same period of 2000. Domestic adjusted underwriting profit increased primarily as a result of the disciplined underwriting of DBG. The regulatory, product type and competitive environment as well as the degree of litigation activity in any one country varies significantly. These factors have a direct impact on pricing and consequently profitability as reflected by adjusted underwriting profit and statutory general insurance ratios.

AIG's results reflect the net impact of incurred losses from catastrophes approximating $48 million and $44 million in the first six months of 2001 and 2000, respectively. AIG's gross incurred losses from catastrophes approximated $101 million and $112 million in 2001 and 2000, respectively. The impact of losses caused by catastrophes can fluctuate widely from period to period, making comparisons of recurring type business more difficult. The pro forma table below excludes catastrophe losses in order to present comparable results of AIG's recurring core underwriting operations. The pro forma consolidated statutory general insurance ratios would be as follows:

	2001	2000
Loss Ratio	74.42	74.62
Expense Ratio	20.79	20.71
Combined Ratio	95.21	95.33

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

General insurance net investment income in the first six months of 2001 increased 7.6 percent when compared to the same period of 2000. The growth in net investment income in 2001 was primarily attributable to new cash flow for investment. The new cash flow was generated from net general insurance operating cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

General insurance realized capital losses were $58 million in the first six months of 2001 and realized capital gains were $9 million in 2000. These realized capital gains and losses resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first six months of 2001 increased 5.1 percent when compared to the same period of 2000. The contribution of general insurance operating income to income before income taxes, minority interest and cumulative effect of an accounting change was 40.0 percent during the first six months of 2001 compared to 43.3 percent in the same period of 2000.

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

AIG's general reinsurance assets amounted to $23.88 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at June 30, 2001 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2000, approximately 43 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 57 percent of the general reinsurance assets were from authorized reinsurers and over 95 percent of such balances are from reinsurers rated A-(excellent) or better, as rated by A.M. Best. This rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Through June 30, 2001, these distribution percentages have not significantly changed.

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

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

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

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

At June 30, 2001, the consolidated general reinsurance assets of $23.88 billion include reinsurance recoverables for paid losses and loss expenses of $3.69 billion and $15.78 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 June 30, 2001 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

At June 30, 2001, general insurance reserves for losses and loss expenses (loss reserves) amounted to $40.84 billion. These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and amounts of discounting related to certain workers' compensation claims. At June 30, 2001, general insurance net loss reserves increased $112 million from prior year end to $25.06 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at June 30, 2001. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on future results of operations.

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

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

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

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

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

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter referred to collectively as environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites environmental impairment liability insurance on a claims made basis and excluded such claims from the analyses included herein.

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

In the interim, AIG and other industry members have and will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as is the case for other types of claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. Although the estimated liabilities for these claims are subject to a significantly greater margin of error than for other claims, the reserves carried for these claims at June 30, 2001 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. In the future, if the environmental claims develop deficiently, such deficiency would have an adverse impact on future results of operations. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at June 30, 2001 and 2000 was as follows:

(in millions)
- -----------

2001 2000 ---
----------- -

GROSS NET
GROSS NET - -

Asbestos:				
Reserve for losses and loss expenses at beginning of year	$1,100	$ 338	$1,093	$306
Losses and loss expenses incurred	191	38	29	14
Losses and loss expenses paid	(174)	(60)	(206)	(51)
Reserve for losses and loss expenses at end of period	$1,117	$ 316	$ 916	$269
Environmental:				
Reserve for losses and loss expenses at beginning of year	$1,345	$ 517	$1,519	$585
Losses and loss expenses incurred	(30)	(40)	3	2
Losses and loss expenses paid	(128)	(46)	(47)	(25)
Reserve for losses and loss expenses at end of period	$1,187	$ 431	$1,475	$562

(in millions)	2001 GROSS	2001 NET	2000 GROSS	2000 NET
Combined:				
Reserve for losses and loss expenses at beginning of year	$2,445	$ 855	$2,612	$891
Losses and loss expenses incurred	161	(2)	32	16
Losses and loss expenses paid	(302)	(106)	(253)	(76)
Reserve for losses and loss expenses at end of period	$2,304	$ 747	$2,391	$831

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at June 30, 2001 and December 31, 2000 were estimated as follows:

(in millions)

	2001		2000	
	GROSS	NET	GROSS	NET
Combined	$1,040	$287	$1,042	$314

A summary of asbestos and environmental claims count activity for the six month periods ended June 30, 2001 and 2000 was as follows:

2001			2000		
ASBESTOS	ENVIRONMENTAL	COMBINED	ASBESTOS	ENVIRONMENTAL	COMBINED

Claims at
beginning of
year 6,796
11,323
18,119 6,746
13,432
20,178
Claims
during year:
Opened 481
1,087 1,568
395 909
1,304
Settled (77)
(776) (853)
(61) (348)
(409)
Dismissed or
otherwise
resolved
(426)
(1,708)
(2,134)
(287)
(1,766)
(2,053) - --

Claims at
end of
period 6,774
9,926 16,700
6,793 12,227
19,020 - ---

The average cost per claim settled, dismissed or otherwise resolved for the six month periods ended June 30, 2001 and 2000 was as follows:

- --

2001 2000 --

----- ------

--- GROSS
NET GROSS
NET - ------

Asbestos
$345,900
$119,300 $
592,000
$146,600
Environmental
51,500
18,500

22,200
11,800
Combined
101,100
35,500
102,800
30,900 - ---

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

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

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

AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average payment. These ratios at June 30, 2001 and 2000 were as follows:

	2001		2000	
	GROSS	NET	GROSS	NET
Involuntary survival ratios:				
Asbestos	3.2	3.4	2.8	3.9
Environmental	17.4	16.3	19.1	18.3
Combined	6.6	7.5	6.9	9.4

AIG's operations are negatively impacted under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments net of credits for 2000 were $15 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 2001.

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

LIFE INSURANCE OPERATIONS

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

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

Life insurance operations for the six month periods ending June 30, 2001 and 2000 were as follows:

(in millions)

	2001	2000
Premium income:		
Domestic	$ 752	$ 570
Foreign	6,603	6,095
Total	$ 7,355	$ 6,665
Net investment income:		
Domestic	$ 2,137	$ 1,879
Foreign	1,735	1,532
Total	$ 3,872	$ 3,411
Operating income before realized capital losses:		
Domestic	$ 731	$ 625
Foreign	1,296	1,082
Total	2,027	1,707
Realized capital losses	(21)	(58)

Operating income	$ 2,006	$ 1,649
Life insurance in-force:*		
Domestic	$ 93,632	$ 88,743
Foreign	657,396	494,316
Total	$751,028	$583,059

* Amounts presented were as at June 30, 2001 and December 31, 2000, respectively. June 30, 2001, included AIG Star Life Insurance Co., Ltd., (formerly The Chiyoda Mutual Life Insurance Company).

AIG's life premium income during the first six months of 2001 represented a 10.4 percent increase from the same period in 2000. Foreign life operations produced 89.8 percent and 91.5 percent of the life premium income in 2001 and 2000, respectively.

The traditional life products, particularly individual life products, were major contributors to the growth in foreign premium income. These traditional life products, coupled with the increased distribution of financial and investment products contributed to the growth in foreign investment income. A mixture of traditional, accident and health and financial products are being sold in Japan through ALICO.

As previously discussed, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, for the first six months of 2001, when foreign life premium income was translated into U.S. dollars for purposes of the preparation of the consolidated financial statements, total life premium income was approximately 7.5 percentage points less than it would have been if translated utilizing exchange rates prevailing in 2000.

Life insurance net investment income increased 13.5 percent during the first six months of 2001. The growth in net investment income was primarily attributable to both foreign and domestic new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

Life insurance realized capital losses for the first six months were $21 million in 2001 and $58 million in 2000. These realized capital losses resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income during the first six months of 2001 increased 21.7 percent to $2.01 billion. Excluding realized capital losses from life insurance operating income, the percent increase would be 18.8 percent. The contribution of life insurance operating income to income before income taxes, minority interest and cumulative effect of an accounting change amounted to 43.1 percent during the first six months of 2001 compared to 40.3 percent in the same period of 2000.

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

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage by using yearly renewable term reinsurance.

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

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

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

Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities. The anticipated average period for the receipt and investment of these future premium receipts is 6.1 years. These durations compare with an estimated average duration of 10.4 years for the corresponding policy liabilities. These durations have not changed significantly during 2001. To maintain an adequate yield to match the interest necessary to support future policy liabilities, constant management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. (See also the discussion under "Liquidity" herein.)

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

FINANCIAL SERVICES OPERATIONS

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

International Lease Finance Corporation (ILFC) engages primarily in the acquisition of new and used commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. Also, ILFC provides, for a fee, fleet management services to certain third-party operators. (See also Note (d) of Notes to Financial Statements.)

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

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

Financial services operations for the six month periods ending June 30, 2001, and 2000 were as follows:

(in millions)

	2001	2000
Revenues:		
International Lease Finance Corporation	$1,278	$1,157
AIG Financial Products Corp.*	519	451
AIG Trading Group Inc.*	59	135
Other	244	127
Total	$2,100	$1,870
Operating		

income:		
International Lease Finance Corporation	$ 344	$ 310
AIG Financial Products Corp.	354	278
AIG Trading Group Inc.	14	35
Other, including intercompany adjustments	(11)	(38)
Total	$ 701	$ 585

* Represents commissions, transaction and other fees.

Financial services operating income increased 19.7 percent in the first six months of 2001 over 2000.

Financial services operating income represented 15.1 percent of AIG's income before income taxes, minority interest and cumulative effect of an accounting change in the first six months of 2001. This compares to 14.3 percent in the same period of 2000.

ILFC generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in the first six months of 2001 increased 10.5 percent from the same period of 2000. The revenue growth resulted primarily from the increase in flight equipment available for operating lease and the increase in the relative cost of the leased fleet. Approximately 20 percent of ILFC's operating lease revenues are derived from U.S. and Canadian airlines. During the first six months of 2001, operating income increased 11.0 percent from the same period of 2000. ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing rates at the end of the first six months of 2001 and 2000 were 5.49 percent and 6.33 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein and Note (d) of Notes to Financial Statements.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and through committing to purchase aircraft which it would be unable to lease. ILFC manages its lessee non-performance exposure through credit reviews and security deposit requirements. At June 30, 2001, there were 429 aircraft subject to operating leases and there was one aircraft off lease. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIGFP participates in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity and credit derivative products business. AIGFP also enters into structured transactions including long-dated forward foreign exchange contracts, option transactions, liquidity facilities and investment agreements and invests in a diversified portfolio of securities. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. Revenues in the first six months of 2001 increased 15.2 percent from the same period of 2000. During the first six months of 2001, operating income increased 27.1 percent from the same period of 2000. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note (d) of Notes to Financial Statements.)

AIGTG derives a substantial portion of their revenues from market making and trading activities, as principals, in foreign exchange, interest rates and precious and base metals. Revenues in the first six months of 2001 decreased 56.4 percent from the same period of 2000. During the first six months of 2001, operating income decreased 60.5 percent from the same period of 2000. As AIGTG is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance or for comparing revenues to operating income. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein and Note (d) of Notes to Financial Statements.)

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

ASSET MANAGEMENT OPERATIONS

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

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

Asset management operations for the six month periods ending June 30, 2001 and 2000 were as follows:

(in millions)

	2001	2000
Revenues	$611	$593
Operating income	211	210

- ------

-

Asset management operating income in the first six months of 2001 increased 0.4 percent when compared to the same period of 2000.

Asset management operating income represented 4.5 percent of AIG's income before income taxes, minority interest and cumulative effect of an accounting change in the first six months of 2001. This compares to 5.1 percent in the same period of 2000.

At June 30, 2001, AIG's third party assets under management, including both retail mutual funds and institutional accounts, approximated $34 billion.

OTHER OPERATIONS

Other realized capital losses amounted to $17 million, and $6 million in the first six months of 2001 and 2000, respectively.

Other income (deductions)-net includes AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In the first six months of 2001, net deductions amounted to $105 million. In the same period of 2000, net deductions amounted to $122 million.

Income before income taxes, minority interest and cumulative effect of an accounting change amounted to $4.66 billion in the first six months of 2001. Income before income taxes and minority interest amounted to $4.09 billion in the same period of 2000.

In the first six months of 2001, AIG recorded a provision for income taxes of $1.37 billion compared to the provision of $1.21 billion in the same period of 2000. These provisions represent effective tax rates of 29.4 percent in the first six months of 2001, and 29.7 percent in the same period of 2000.

Minority interest represents minority shareholders' equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to $123 million and $121 million in the first six months of 2001 and 2000, respectively.

Income before the cumulative effect of an accounting change amounted to $3.17 billion in the first six months of 2001 and $2.75 billion in the same period of 2000.

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

Net income amounted to $3.16 billion in the first six months of 2001 and $2.75 billion in the same period of 2000. The increases in net income over the periods resulted from those factors described above.

CAPITAL RESOURCES

At June 30, 2001, AIG had total capital funds of $42.66 billion and total borrowings of $49.36 billion. At that date, $43.84 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 June 30, 2001 and December 31, 2000 were as follows:

(in millions)	2001	2000
GIAs -- AIGFP	$14,977	$13,595
Commercial Paper: AIG Funding, Inc.	2,024	968
ILFC(a)		

4,139
4,259 A.I.
Credit
Corp. --
597 AIG
Finance
(Taiwan)
Limited(a)
108 104
AIG Credit
Card
Company
(Taiwan)
(a) 47 36
- --------

Total
6,318
5,964 - --

Medium
Term
Notes:
ILFC(a)
4,274
3,175 AIG
656 582 -

Total
4,930
3,757 - --

---- Notes
and Bonds
Payable:
ILFC(a)
6,429
5,529
AIGFP
14,098
8,755 AIG
726 720 -

Total
21,253
15,004 - -

Loans and
Mortgages
Payable:
ILFC(a)(b)
415 463
AIG

Finance (Hong Kong) Limited(a) 256 346 AIG Consumer Finance Group, Inc.(a) 765 662 AIG 442 440 - -- Total 1,878 1,911 - -- Total Borrowings 49,356 40,231 - --- Borrowings not guaranteed by AIG 16,433 14,574 Matched GIA borrowings 14,977 13,595 Matched notes and bonds payable -- AIGFP 12,426 8,127 - -- 43,836 36,296 - --- Remaining borrowings of AIG $ 5,520 $ 3,935 - --

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

The maturity distributions of total borrowings at June 30, 2001 and December 31, 2000 were as follows:

(in millions)

	2001	2000
Short-term borrowings	$16,664	$14,989
Long-term borrowings(a)	32,692	25,242
Total borrowings	$49,356	$40,231

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

During the first six months of 2001, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to $14.10 billion. AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The funds may also be temporarily invested in securities purchased under agreements to resell. (See also the discussions under "Operational Review", "Liquidity" and "Derivatives" herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its non-insurance subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC and A.I. Credit Corp. (AICCO) as well as AIG Credit Card Company (Taiwan) -- (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited -- (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, have issued commercial paper for the funding of their own operations. At June 30, 2001, AIG did not guarantee or support the commercial paper of any of its subsidiaries other than Funding. In early 2001, AICCO ceased issuing commercial paper under its program and the agreement which AIG had provided supporting the commercial paper was terminated; AICCO's funding requirements are now met through Funding's program. (See also the discussion under "Derivatives" herein.)

AIG and Funding have entered into syndicated revolving credit facilities (collectively, the Facility) aggregating $1.5 billion. The Facility consists of $1.0 billion in a short-term revolving credit facility and a $500 million five year revolving credit facility. The Facility can be used for general corporate purposes and also to provide backup for AIG's commercial paper programs administered by Funding. There are currently no borrowings outstanding under the Facility, nor were any borrowings outstanding as of June 30, 2001.

At June 30, 2001, ILFC had increased the aggregate principal amount outstanding of its medium term and term notes to $10.70 billion, a net increase of $2.0 billion, and recorded a net decline in its capital lease obligations of $48 million and a net decrease in its commercial paper of $120 million. At June 30, 2001, ILFC had $3.08 billion in aggregate principal amount of debt securities registered for issuance from time to time. In addition, ILFC has a Euro Medium Term Note Program for $2.0 billion, under which $771 million in notes were sold through June 30, 2001.

ILFC has a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft to be delivered through 2001. ILFC has the right, but is not required, to use the facility to fund 85 percent of each aircraft's purchase price. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these aircraft depending on the delivery date of the aircraft. Through June 30, 2001, ILFC borrowed $2.5 billion under this facility. Borrowings with respect to this facility are included in Notes and Bonds Payable in the accompanying table of borrowings.

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

During the first six months of 2001, AIG issued $129 million principal amount of Medium Term Notes and $55 million of previously issued notes matured. At June 30, 2001, AIG had $652 million in aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds increased $3.04 billion during the first six months of 2001. Unrealized appreciation of investments, net of taxes increased $149 million. During the first six months of 2001, the cumulative translation adjustment loss, net of taxes, increased $245 million. The change from period to period with respect to the unrealized appreciation of investments, net of taxes was primarily impacted by the decline in domestic interest rates. The transfer of bonds in the held to maturity, at amortized cost category to the bonds available for sale, at market value category in accordance with the transition provisions of FASB 133 resulted in a gain of $339 million recorded in the statement of comprehensive income as a cumulative effect of an accounting change adjustment. (See also the discussion under "Operational Review" and "Liquidity" herein.) At June 30, 2001, capital funds included a cumulative effect of an accounting change adjustment gain of $179 million. During the first six months of 2001, there was a loss of $142 million, net of taxes relating to derivative contracts designated as cash flow hedging instruments. (See also the discussion under Notes to Financial Statements and the Consolidated Statement of Comprehensive Income.) During the first six months of 2001, retained earnings increased $2.99 billion, resulting from net income less dividends.

During the period from January 2001 through June 30, 2001, AIG repurchased in the open market 2,795,000 shares of its common stock. AIG intends to continue to buy its common shares in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At June 30, 2001, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein.)

AIG's insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At June 30, 2001, the adjusted capital of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards by considerable margins.

A substantial portion of AIG's general insurance business and a majority of its life insurance business are conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies from minimal in some to stringent in others. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may impact AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's net financial exposure at that time in that country.

LIQUIDITY

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

At June 30, 2001, AIG's consolidated invested assets included $6.54 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first six months of 2001 amounted to $1.48 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately $10.2 billion in pre-tax cash flow during the first six months of 2001. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately $5.2 billion in investment income cash flow during the first six months of 2001. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses.

In addition to the combined insurance pre-tax operating cash flow, AIG's insurance operations held $5.91 billion in cash and short-term investments at June 30, 2001. The aforementioned operating cash flow and the cash and short-term balances held provided AIG's insurance operations with a significant amount of liquidity.

This liquidity is available, among other things, to purchase high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy loans and collateral loans. This cash flow coupled with proceeds of approximately $22 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $30 billion of fixed income securities and marketable equity securities during the first six months of 2001.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued of $2.42 billion at both June 30, 2001 and December 31, 2000 and real estate of $1.85 billion and $1.87 billion, at June 30, 2001 and December 31, 2000, respectively:

(dollars in millions)

	JUNE 30, 2001		December 31, 2000	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
General insurance	$ 43,401	18.0%	$ 42,892	19.6%
Life insurance	112,791	46.7	98,711	45.0
Financial services and asset management	84,388			

34.9
76,748
35.0 Other
891 0.4
831 0.4 -

- Total
$241,471
100.0%
$219,182
100.0% - -

INSURANCE INVESTED ASSETS

The following tables summarize the composition of AIG's insurance invested assets by insurance segment, including investment income due and accrued and real estate, at June 30, 2001 and December 31, 2000:

(dollars in millions)

- ---------

- PERCENT
DISTRIBUTION
GENERAL
LIFE
PERCENT ---

JUNE 30,
2001
INSURANCE
INSURANCE
TOTAL OF
TOTAL
DOMESTIC
FOREIGN - -

Fixed
maturities:
Available
for sale,
at market
value(a)
$29,763 $
82,005
$111,768
71.6% 57.7%
42.3%
Equity
securities,
at market
value(b)
4,531 2,210
6,741 4.3
54.7 45.3
Mortgage
loans on
real
estate,
policy and
collateral
loans 66
10,582
10,648 6.8
57.9 42.1
Short-term
investments,
including
time
deposits,

and cash
1,809 4,102
5,911 3.8
45.3 54.7
Real estate
410 1,349
1,759 1.1
15.2 84.8
Investment
income due
and accrued
563 1,746
2,309 1.5
49.5 50.5
Other
invested
assets
6,259
10,797
17,056 10.9
76.3 23.7 -

Total
$43,401
$112,791
$156,192
100.0%
58.5% 41.5%
- ---------

-

(a)Includes $822 million of bonds trading securities, at market value.
(b)Includes $1.20 billion of non-redeemable preferred stocks, at market value.

(dollars in millions)
- --

Percent
Distribution
General
Life
Percent ---

December
31, 2000
Insurance
Insurance
Total of
Total
Domestic
Foreign - -

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

-

(a)Includes $846 million of bonds trading securities, at market value.
(b)Includes $1.04 billion of non-redeemable preferred stocks, at market value.

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

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

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

At June 30, 2001, approximately 58 percent of the fixed maturities investments were domestic securities. Approximately 35 percent of such domestic securities were rated AAA. Approximately 12 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 June 30, 2001, approximately 11 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 16 percent were below investment grade or not rated at that date. A large portion of the foreign insurance fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

At June 30, 2001, approximately 18 percent of the fixed maturities portfolio was collateralized mortgage obligations (CMOs), including commercial mortgage backed securities. Substantially all of the CMOs were investment grade and approximately 12 percent of the CMOs were backed by various U.S. government agencies. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would be affected by the accelerated prepayments of the underlying mortgages.

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

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

Mortgage loans on real estate, policy and collateral loans comprised 6.8 percent of AIG's insurance invested assets at June 30, 2001. AIG's insurance operations' holdings of real estate mortgages amounted to $6.97 billion of which 78.8 percent was domestic. At June 30, 2001, only a nominal amount were in default. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. At June 30, 2001, AIG's insurance holdings of collateral loans amounted to $815 million, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans decreased from $3.03 billion at December 31, 2000 to $2.86 billion at June 30, 2001.

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

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

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

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

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

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

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

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

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

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

AIG calculated the VaR with respect to the net fair value of each of AIG's insurance segments as of June 30, 2001 and December 31, 2000. AIG's methodology for calculating VaR and the results of the calculations presented herein were performed using historical simulation. Using historical simulation over the delta-normal approach does not significantly change the results of this disclosure. The historical simulation methodology entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure). A one month holding period was assumed in computing the VaR figure.

The following table presents the VaR on a combined basis and of each component of market risk for each of AIG's insurance segments as of June 30, 2001 and December 31, 2000. VaR with respect to combined operations cannot be derived by aggregating the individual risk or segment amounts presented herein.

(in millions)

	GENERAL INSURANCE		LIFE INSURANCE	
MARKET RISK	2001	2000	2001	2000
Combined	$837	$744	$1,230	$1,162
Interest rate	460	454	1,188	1,119
Currency	44	59	183	373

Equity
812 603
266 293
- ------

The following table presents the average, high and low VaRs on a combined basis and of each component of market risk for each of AIG's insurance segments as of June 30, 2001 and December 31, 2000.

(in millions)
- --

2001
2000 ---

AVERAGE
HIGH LOW
AVERAGE
HIGH LOW
- ------

GENERAL
INSURANCE
Market
Risk
Combined
$ 799 $
837 $
744 $
811 $
954 $
737
Interest
rate 459
464 454
419 454
338
Currency
51 59 44
49 65 29
Equity
740 812
603 694
828 603
LIFE
INSURANCE
Market

Risk
Combined
$1,144
$1,230
$1,041
$1,157
$1,211
$1,105
Interest
rate
1,129
1,188
1,081
1,094
1,206
950
Currency
273 373
183 430
566 372
Equity
283 293
266 315
396 293
- ------

FINANCIAL SERVICES AND ASSET MANAGEMENT INVESTED ASSETS

The following table is a summary of the composition of AIG's financial services and asset management invested assets at June 30, 2001 and December 31, 2000. (See also the discussions under "Operational Review: Financial Services Operations", "Operational Review: Asset Management Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in millions)

	2001		2000	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
Flight equipment primarily under operating leases, net of accumulated depreciation	$21,674	25.7%	$19,325	25.2%
Unrealized gain on interest rate and currency swaps, options and forward transactions	10,746	12.7	10,235	13.3
Securities available for sale, at market value	17,027	20.2	14,669	19.1
Trading securities, at market value	6,523	7.7	7,347	9.6
Securities purchased under agreements to resell,				

at contract
value
17,692 21.0
14,979 19.5
Trading
assets
7,503 8.9
7,045 9.2
Spot
commodities,
at market
value 316
0.4 363 0.5
Other,
including
short-term
investments
2,907 3.4
2,785 3.6 -

---- Total
$84,388
100.0%
$76,748
100.0% - --

--

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During the first six months of 2001, ILFC acquired flight equipment costing $2.80 billion.

ILFC is exposed to market risk and the risk of loss of fair value resulting from adverse fluctuations in interest rates. As of June 30, 2001 and December 31, 2000, AIG statistically measured the aforementioned loss of fair value through the application of a VaR model. In this analysis, the net fair value of ILFC was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue and the financial instrument liabilities which included the future servicing of the current debt. The estimated impact of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of ILFC using the variance-covariance (delta-normal) methodology. This calculation also used daily historical interest rates for the two years ending June 30, 2001 and December 31, 2000. The VaR model estimated the volatility of each of these interest rates and the correlation among them. The yield curve was constructed using eleven key points on the curve to model possible curve movements. Thus, the VaR measured the sensitivity of the assets and liabilities to the calculated interest rate exposures. These sensitivities were then applied to a database, which contained the historical ranges of movements in interest rates and the correlation among them. The results were aggregated to provide a single amount that depicts the maximum potential loss in fair value of a confidence level of 95 percent for a time period of one month. As of June 30, 2001 and December 31, 2000, the VaR with respect to the aforementioned net fair value of ILFC was approximately $8 million and $11 million, respectively.

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

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

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At June 30, 2001, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with $182 million of these securities. There were no securities deemed below investment grade at June 30, 2001. There have been no significant downgrades through August 1, 2001. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when AIGFP deems necessary, it requires additional collateral to be deposited. Trading securities, at market value are marked to market daily and are held to meet the short-term risk management objectives of AIGFP.

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

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at June 30, 2001 were as follows:

(in millions)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value	$ 846	$ 814
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions(a)(b)	10,746	7,948
Trading assets	8,010	6,178
Spot commodities, at market value	28	--
Trading liabilities	--	2,303
Securities and spot commodities sold but not yet purchased, at market value	505	--

----

(a)These amounts are also presented as the respective balance sheet amounts.
(b)At June 30, 2001, AIGTG's replacement values with respect to interest rate and currency swaps were $410 million.

AIGFP's interest rate and currency risks on securities available for sale, at market, are managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At June 30, 2001, the unrealized gains and losses remaining after the benefit of the offsets were $51 million and $19 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 and positions are held to meet the short-term risk management objectives of AIGFP and AIGTG.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A significant portion of AIGTG's business is transacted in liquid markets. Certain of AIGTG's derivative product exposures are evaluated using simulation techniques which consider such factors as changes in currency and commodity prices, interest rates, volatility levels and the effect of time.

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

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

AIG calculated the VaR with respect to AIGFP and AIGTG as of June 30, 2001 and December 31, 2000. AIG's methodology for calculating VaR and the results of the calculations presented herein were performed using historical simulation. Using historical simulation over the delta-normal approach does not significantly change the results of this disclosure. The historical simulation methodology entails re-pricing all assets and liabilities under explicit changes in market rates within a specific historical time period. In this case, the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices were used to construct the historical scenarios. For each scenario, each transaction was re-priced. Portfolio, business unit and finally AIG-wide scenario values were then calculated by netting the values of all the underlying assets and liabilities. The final VaR number represents the maximum potential loss incurred by these scenarios with 95% confidence (i.e., only 5% of historical scenarios show losses greater than the VaR figure).

The following table presents the VaR on a combined basis and of each component of AIGFP's and AIGTG's market risk as of June 30, 2001 and December 31, 2000. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

(in millions)

MARKET RISK	AIGFP(A) 2001	AIGFP(A) 2000	AIGTG(B) 2001	AIGTG(B) 2000
Combined	$12	$15	$2	$6
Interest rate	11	15	2	4
Currency	--	--	2	3
Equity/Commodity	1	--	--	--

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

The following table presents the average, high and low VaRs on a combined basis and of each component of AIGFP's and AIGTG's market risk as of June 30, 2001 and December 31, 2000.

(in millions)

	2001 AVERAGE	2001 HIGH	2001 LOW	2000 AVERAGE	2000 HIGH	2000 LOW
AIGFP MARKET RISK:						
Combined	$12	$15	$10	$15	$24	$8
Interest rate	12	15	10	15	23	7
Currency	--	1	--	--	--	--
Equity/Commodity	1	1	--	1	2	--
AIGTG MARKET RISK:						
Combined	$ 4	$ 6	$2	$ 5	$ 6	$4
Interest Rate	3	4	2	3	4	3
Currency	2	3	1	3	4	2

DERIVATIVES

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

The most commonly used swaps are interest rate swaps, currency swaps, equity swaps and swaptions. Such derivatives are traded over the counter. An interest rate swap is a contract between two parties to exchange interest rate payments (typically a fixed interest rate versus a variable interest rate) calculated on a notional principal amount for a specified period of time. The notional amount is not exchanged. Currency and equity swaps are similar to interest rate swaps but may involve the exchange of principal amounts at the commencement and termination of the swap. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

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

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

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

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

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

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

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

A significant majority of AIGFP's transactions are contracted and documented under ISDA Master Agreements. Management believes that such agreements provide for legally enforceable set-off in the event of default. Also, under such agreements, in connection with a counterparty desiring to terminate a contract prior to maturity, AIGFP may be permitted to set-off its receivables from that counterparty against AIGFP's payables to that same counterparty arising out of all included transactions. Excluding regulated exchange transactions, AIGTG, whenever possible, enters into netting agreements with its counterparties which are similar in effect to those discussed above.

The following tables provide the notional and contractual amounts of AIGFP's and AIGTG's derivatives transactions at June 30, 2001 and December 31, 2000.

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

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

The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss after the application of the aforementioned strategies, netting under ISDA Master Agreements and applying collateral held. Prior to the application of these credit enhancements, the gross credit risk with respect to these derivative instruments was $51.1 billion at June 30, 2001 and $33.4 billion at December 31, 2000. Subsequent to the application of such credit enhancements, the net exposure to credit risk or the net replacement value of all interest rate, currency and equity swaps, swaptions and forward commitments approximated $10.07 billion at June 30, 2001 and $9.51 billion at December 31, 2000. The net replacement value for futures and forward contracts approximated $185 million at June 30, 2001 and $204 million at December 31, 2000. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at June 30, 2001 and December 31, 2000:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2001	TOTAL 2000
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$ 75,278	$195,884	$ 89,281	$ 9,518	$369,961	$344,203
Currency swaps	29,711	51,959	34,220	4,970	120,860	117,792
Swaptions and equity swaps	15,103	26,040	10,900	3,770	55,813	59,026
Total	$120,092	$273,883	$134,401	$18,258	$546,634	$521,021
Futures and forward contracts:						
Exchange traded futures						

contracts
contractual
amount $ 8,624
-- -- -- $
8,624 $ 11,082
- -------------

---- Over the
counter forward
contracts
contractual
amount $ 47,337
$ 471 $ 189 --
$ 47,997 $
22,809 - ------

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At June 30, 2001 and December 31, 2000, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)
- ---

NET
REPLACEMENT
VALUE -----

-- SWAPS
AND FUTURES
AND TOTAL
TOTAL
SWAPTIONS
FORWARD
CONTRACTS
2001 2000 -

Counterparty
credit
quality:
AAA $ 3,742
$ 15 $
3,757
$3,778 AA
3,198 139
3,337 2,825
A 2,097 29
2,126 1,801
BBB 926 2
928 1,059
Below
investment
grade 110 -
- 110 252 -

Total
$10,073
$185
$10,258
$9,715 - --

At June 30, 2001 and December 31, 2000, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)
- ---

NET
REPLACEMENT
VALUE -------

SWAPS AND
FUTURES AND
TOTAL TOTAL
SWAPTIONS
FORWARD
CONTRACTS
2001 2000 - -

----- Non-
U.S. banks $
2,543 $ 68 $
2,611 $2,517
Insured
municipalities
555 -- 555
595 U.S.
industrials
2,004 --
2,004 1,945
Governmental
481 -- 481
463 Non-U.S.
financial
service
companies 426
1 427 309
Non-U.S.
industrials
961 15 976
1,372 Special
purpose 1,476
-- 1,476
1,204 U.S.
banks 204 99
303 220 U.S.
financial
service

companies
1,132 2 1,134
894
Supranationals
291 -- 291
196 - -------

Total $10,073
$185 $10,258
$9,715 - ----

--

The gross replacement values presented in the following table represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at June 30, 2001 and December 31, 2000. These values do not represent the credit risk to AIGTG.

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

The following table provides the contractual and notional amounts and credit exposure, if applicable, by maturity and type of derivative of AIGTG's derivatives portfolio at June 30, 2001 and December 31, 2000. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the June 30, 2001 balances based upon the expected timing of the future cash flows.

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2001	TOTAL 2000
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 9,329	$ 3,560	$ 20	$--	$ 12,909	$ 18,064
Forwards	$224,936	$17,021	$ 1,675	$--	$243,632	

$234,316 -

Over the counter purchased options $ 87,242 $20,433 $34,761 $-- $142,436 $104,919 -
----

Over the counter sold options(a) $ 83,757 $21,606 $33,983 $87 $139,433 $103,742 -
----

Notional amount: Interest rate swaps and forward rate agreements $ 16,754 $34,628 $ 6,978 $85 $ 58,445 $ 63,264
Currency swaps 3,876 5,412 648 - - 9,936 8,573
Swaptions 1,390 13,333 1,311 -- 16,034 15,419 - --

Total $
22,020
$53,373 $
8,937 $85 $
84,415 $
87,256 - --

Credit
exposure:
Futures,
forwards,
swaptions
and
purchased
options
contracts
and
interest
rate and
currency
swaps:
Gross
replacement
value $
6,277 $
2,412 $ 981
$ 1 $ 9,671
$ 10,319
Master
netting
arrangements
(3,714)
(1,574)
(725) (1)
(6,014)
(6,136)
Collateral
(60) (49)
(24) --
(133) (107)
- ---------

-- Net
replacement
value(b) $
2,503 $ 789
$ 232 $-- $
3,524 $
4,076 - ---

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

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

AIGTG determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At June 30, 2001 and December 31, 2000, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio were as follows:

(in millions)

	NET REPLACEMENT VALUE	
	2001	2000
Counterparty credit quality:		
AAA	$ 435	$ 442
AA	1,348	1,807
A	1,217	1,139
BBB	238	460
Below investment grade	76	48
Not externally rated, including exchange traded futures and options*	210	180
Total	$3,524	$4,076
Counterparty breakdown by industry:		
Non-U.S. banks	$1,288	$2,076
U.S. industrials	262	67
Governmental	78	70
Non-U.S. financial		

service companies	308	282
Non-U.S. industrials	404	243
U.S. banks	651	468
U.S. financial service companies	323	690
Exchanges*	210	180
Total	$3,524	$4,076

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

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

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

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

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

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

ACCOUNTING STANDARDS

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

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

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

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

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

In June 2001, FASB issued Statement of Financial Accounting Standard No. 141 "Business Combinations" (FASB 141). FASB 141 requires AIG to apply the purchase method of accounting for all acquisitions initiated after June 30, 2001.

In June 2001, FASB issued Statement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets" (FASB 142). FASB 142 requires AIG to discontinue the amortization of goodwill on its consolidated income statement. FASB 142 is effective for AIG for the year commencing January 1, 2002.

In addition, FASB 142 requires goodwill to be subject to an assessment of impairment on an annual basis, or more frequently if circumstances indicate that a possible impairment has occurred. As of June 30, 2001, AIG recorded $3.4 billion of goodwill on its consolidated balance sheet. AIG is currently evaluating the impact of the impairment provisions of FASB 142, and believes that the impact on its results of operations and financial condition will not be significant.

RECENT DEVELOPMENTS

On April 20, 2001, AIG announced that the reorganization plan for The Chiyoda Mutual Life Insurance Company (Chiyoda) had been approved by Japanese regulatory authorities, and that Chiyoda had become a joint-stock company and commenced operations as AIG Star Life Insurance Co., Ltd., a wholly owned subsidiary of AIG.

On May 11, 2001, AIG announced that it has entered into a definitive agreement to acquire American General Corporation (American General). American General shareholders will receive $46 per American General share in AIG common stock, subject to a collar mechanism. The transaction, which has been approved by the boards of directors of both companies, will be a tax-free reorganization and will be accounted for using the pooling of interests method. The transaction values American General at approximately $23 billion. AIG expects to receive the remaining regulatory approvals for the acquisition in August and plans to close the transaction as soon as possible thereafter.

PART II -- OTHER INFORMATION

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

At the Annual Meeting of Shareholders held on May 16, 2001, the Shareholders:

(a) elected eighteen directors as follows:

NOMINEE	SHARES FOR	SHARES WITHHELD
M. Bernard Aidinoff	1,980,067,763	81,449,239
Eli Broad	1,868,919,428	192,597,574
Pei-yuan Chia	2,037,896,599	23,620,403
Marshall A. Cohen	2,037,644,738	23,872,264
Barber B. Conable, Jr.	2,036,370,185	25,146,817
Martin S. Feldstein	2,037,772,118	23,744,884
Ellen V. Futter	2,037,236,477	24,280,525
Maurice R. Greenberg	1,865,952,867	195,564,135
Carla A. Hills	1,983,644,882	77,872,120
Frank J. Hoenemeyer	2,036,078,717	25,438,285
Richard C. Holbrooke	2,037,357,907	24,159,095
Edward E. Matthews	1,866,336,703	195,180,299
Howard I. Smith	1,866,111,986	195,405,016
Thomas R. Tizzio	1,866,895,588	194,621,414
Edmund S.W. Tse	1,867,338,373	194,178,629
Jay S. Wintrob	1,871,185,617	190,331,385
Frank G. Wisner	1,881,521,965	179,995,037
Frank G. Zarb	2,037,486,744	24,030,258

(b) approved, by a vote of 2,047,827,223 shares to 6,823,261 shares, with 6,866,518 abstentions, a proposal to select PricewaterhouseCoopers LLP as independent accountants for 2001;

(c) rejected, by a vote of 542,198,656 shares for and 1,314,478,719 shares against, with 17,622,728 shares abstaining and 187,216,899 shares not voting, a shareholder proposal requesting AIG to change the Board nomination process;

(d) rejected, by a vote of 141,983,177 shares for and 1,709,262,772 shares against, with 23,054,154 shares abstaining and 187,216,899 shares not voting, a shareholder proposal requesting AIG to provide a report on executive compensation; and

(e) rejected, by a vote of 204,422,134 shares for and 1,595,849,105 shares against, with 74,028,864 shares abstaining and 187,216,899 shares not voting, a shareholder proposal requesting AIG to distribute certain statistical data on employees.

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

(a) Exhibits
See accompanying Exhibit Index.

(b) Reports on Form 8-K

During the three months ended June 30, 2001, there were two current reports filed on Form 8-K:

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

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

SIGNATURES

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

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/s/ HOWARD I. SMITH

Howard I. Smith
Executive Vice President and
Chief Financial Officer

Dated: August 13, 2001

EXHIBIT INDEX

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

EXHIBIT 11

AMERICAN INTERNATIONAL GROUP, INC.

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2001(A)	2000	2001	2000
Share information reflects an adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000.				
Numerator:				
Income before cumulative effect of an accounting change	$3,165	$2,753	$1,627	$1,407
Cumulative effect of an accounting change, net of tax	(6)	--	--	--
Net income (applicable to common stock)	$3,159	$2,753	$1,627	$1,407
Denominator:				
Basic:				
Average outstanding shares used in the computation of per share earnings:				
Common stock	2,477	2,491	2,477	2,491
Common stock in treasury	(144)	(174)	(145)	(178)
Average outstanding shares -- basic	2,333	2,317	2,332	2,313
Diluted:				
Average outstanding shares used in the computation of per share earnings:				
Common stock	2,477	2,491	2,477	2,491
Common stock in treasury	(144)	(174)	(145)	(178)
Stock options and stock purchase plan (treasury stock method)	25	26	26	26
Average outstanding shares -- diluted	2,358	2,343	2,358	2,339
Net income per share:				
Basic				
Income before cumulative effect of an accounting change	$ 1.35	$ 1.19	$ 0.69	$ 0.61
Net income	$ 1.35	$ 1.19	$ 0.69	$ 0.61
Diluted				
Income before cumulative effect of an accounting change	$ 1.34	$ 1.17	$ 0.69	$ 0.60
Net income	$ 1.34	$ 1.17	$ 0.69	$ 0.60

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

(a) The number of common shares outstanding as of June 30, 2001 was 2,331. The number of common shares that would have been outstanding as of June 30, 2001 assuming the exercise or issuance of all potentially dilutive common shares was 2,357.

EXHIBIT 12

AMERICAN INTERNATIONAL GROUP, INC.

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

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
Income before income taxes, minority interest and cumulative effect of an accounting change	$4,657	$4,087	$2,385	$2,096
Less -- Equity income (loss) of less than 50% owned persons	11	(1)	6	2
Add -- Dividends from less than 50% owned persons	1	1	1	1
	4,647	4,089	2,380	2,095
Add -- Fixed charges	1,638	1,284	823	613
Less -- Capitalized interest	32	29	16	15
Income before income taxes, minority interest, cumulative effect of an accounting change and fixed charges	$6,253	$5,344	$3,187	$2,693
Fixed charges:				
Interest costs	$1,577	$1,222	$ 793	$ 582
Rent expense*	61	62	30	31
Total fixed charges	$1,638	$1,284	$ 823	$ 613
Ratio of earnings to fixed charges	3.82	4.16	3.87	4.39

- ---------------
* 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 7.10 and 7.19 for the second quarter and 6.96 and 7.03 for the first six months of 2001 and 2000, respectively. As AIGFP will continue to be a subsidiary, AIG expects that these ratios will continue to be lower than they would be if the fixed charges and operating results of AIGFP were not included therein.