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, 2000 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, 2000: 1,542,555,812. (Adjusting on a pro forma basis, common shares outstanding would have been 2,313,833,718 after reflecting a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000.)

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET
(IN MILLIONS)

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2000 -- $84,129; 1999 -- $78,218)	$ 82,577	$ 77,028
Bonds held to maturity, at amortized cost (market value: 2000 -- $12,235; 1999 -- $12,202)	11,915	12,078
Bonds trading securities, at market value (cost: 2000 -- $787; 1999 -- $1,057)	788	1,038
Equity securities:		
Common stocks (cost: 2000 -- $5,710; 1999 -- $5,496)	5,979	6,002
Non-redeemable preferred stocks (cost: 2000 -- $769; 1999 -- $718)	732	712
Mortgage loans on real estate, net of allowance (2000 -- $80; 1999 -- $78)	7,207	7,139
Policy Loans	2,933	2,822
Collateral and guaranteed loans, net of allowance (2000 -- $72; 1999 -- $74)	2,193	2,173
Financial services and asset management assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2000 -- $2,530; 1999 -- $2,200)	19,048	17,334
Securities available for sale, at market value (cost: 2000 -- $13,177; 1999 -- $12,920)	13,214	12,954
Trading securities, at market value	3,870	4,391
Spot commodities, at market value	530	683
Unrealized gain on interest rate and currency swaps, options and forward transactions	8,175	7,931
Trading assets	7,445	5,793
Securities purchased under agreements to resell, at contract value	9,774	10,897
Other invested assets	10,409	9,900
Short-term investments, at cost (approximates market value)	6,435	7,007
Cash	314	132
Total investments and cash	193,538	186,014
Investment income due and accrued	2,160	2,054
Premiums and insurance balances receivable, net of allowance (2000 -- $152; 1999 -- $133)	13,969	12,737
Reinsurance assets	19,692	19,368
Deferred policy acquisition costs	10,007	9,624
Investments in partially-owned companies	345	346
Real estate and other fixed assets, net of accumulated depreciation (2000 -- $1,956; 1999 -- $1,892)	2,967	2,933
Separate and variable accounts	32,378	29,666
Other assets	6,158	5,496
Total assets	$281,214	$268,238

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	JUNE 30, 2000 (UNAUDITED)	DECEMBER 31, 1999
LIABILITIES:		
Reserve for losses and loss expenses	$ 38,359	$ 38,252
Reserve for unearned premiums	11,636	11,450
Future policy benefits for life and accident and health insurance contracts	37,272	34,608
Policyholders' contract deposits	44,710	42,549
Other policyholders' funds	3,509	3,236
Reserve for commissions, expenses and taxes	2,565	2,598
Insurance balances payable	2,727	2,254
Funds held by companies under reinsurance treaties	875	861
Income taxes payable:		
Current	20	138
Deferred	1,022	751
Financial services and asset management liabilities:		
Borrowings under obligations of guaranteed investment agreements	10,331	9,430
Securities sold under agreements to repurchase, at contract value	5,634	6,116
Trading liabilities	3,575	3,821
Securities and spot commodities sold but not yet purchased, at market value	7,436	6,413
Unrealized loss on interest rate and currency swaps, options and forward transactions	7,709	8,624
Trust deposits and deposits due to banks and other depositors	1,985	2,175
Commercial paper	4,285	2,958
Notes, bonds and loans payable	17,629	16,806
Commercial paper	1,094	1,446
Notes, bonds, loans and mortgages payable	2,618	2,344
Separate and variable accounts	32,378	29,666
Minority interests	1,407	1,350
Other liabilities	6,388	6,191
Total liabilities	245,164	234,037
Preferred shareholders' equity in subsidiary companies	1,245	895
CAPITAL FUNDS:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2000 -- 1,660,706,366; 1999 -- 1,660,707,090	4,152	4,152
Additional paid-in capital	2,037	2,080
Retained earnings	33,638	31,040
Accumulated other comprehensive income	(2,455)	(2,103)
Treasury stock, at cost; 2000 -- 118,150,554; 1999 -- 111,579,044 shares of common stock	(2,567)	(1,863)
Total capital funds	34,805	33,306
Total liabilities and capital funds	$281,214	$268,238

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999	THREE MONTHS ENDED JUNE 30, 2000	THREE MONTHS ENDED JUNE 30, 1999
General insurance operations:				
Net premiums written	$ 8,730	$8,245	$4,504	$4,191
Change in unearned premium reserve	(221)	(492)	(102)	(213)
Net premiums earned	8,509	7,753	4,402	3,978
Net investment income	1,323	1,237	660	617
Realized capital gains (losses)	9	139	(3)	61
	9,841	9,129	5,059	4,656
Losses and loss expenses incurred	6,394	5,787	3,306	2,944
Underwriting expenses	1,676	1,548	869	809
	8,070	7,335	4,175	3,753
Operating income	1,771	1,794	884	903
Life insurance operations:				
Premium income	6,665	5,857	3,387	2,984
Net investment income	3,411	3,037	1,740	1,535
Realized capital losses	(58)	(49)	(29)	(28)
	10,018	8,845	5,098	4,491
Death and other benefits	2,695	2,370	1,448	1,191
Increase in future policy benefits	3,949	3,514	1,890	1,763
Acquisition and insurance expenses	1,725	1,575	894	801
	8,369	7,459	4,232	3,755
Operating income	1,649	1,386	866	736
Financial services operating income	585	506	304	255
Asset management operating income	210	131	106	73
Other realized capital losses	(6)	(13)	(2)	(6)
Other income (deductions) -- net	(122)	(87)	(62)	(45)
Income before income taxes and minority interest	4,087	3,717	2,096	1,916
Income taxes -- Current	712	749	404	371
-- Deferred	501	342	219	198
	1,213	1,091	623	569
Income before minority interest	2,874	2,626	1,473	1,347
Minority interest	(121)	(150)	(66)	(70)
Net income	$ 2,753	$2,476	$1,407	$1,277
Earnings per common share*				
Basic	$ 1.19	$ 1.06	$ 0.61	$ 0.55
Diluted	$ 1.17	$ 1.05	$ 0.60	$ 0.54
Cash dividends per common share*	$ 0.067	$0.060	$0.033	$0.030
Average shares outstanding*				
Basic	2,317	2,322	2,313	2,323
Diluted	2,343	2,352	2,339	2,353

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* Share information reflects an adjustment on a pro forma basis for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000.

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN MILLIONS)

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
	(UNAUDITED)	
Cash Flows From Operating Activities:		
Net Income	$ 2,753	$ 2,476
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	3,008	1,993
Premiums and insurance balances receivable and payable -- net	(759)	(1,480)
Reinsurance assets	(324)	(495)
Deferred policy acquisition costs	(383)	(683)
Investment income due and accrued	(106)	(91)
Funds held under reinsurance treaties	14	(17)
Other policyholders' funds	273	135
Current and deferred income taxes -- net	383	448
Reserve for commissions, expenses and taxes	(33)	576
Other assets and liabilities -- net	(894)	(281)
Trading assets and liabilities -- net	(1,898)	1,446
Trading securities, at market value	521	342
Spot commodities, at market value	153	(102)
Net unrealized gain on interest rate and currency swaps, options and forward transactions	(1,159)	3,083
Securities purchased under agreements to resell	1,123	(6,397)
Securities sold under agreements to repurchase	(482)	(1,508)
Securities and spot commodities sold but not yet purchased, at market value	1,023	2,614
Realized capital gains (losses)	55	(77)
Equity in income of partially-owned companies and other invested assets	(45)	(176)
Depreciation expenses, principally flight equipment	557	516
Change in cumulative translation adjustments	4	(279)
Other -- net	(71)	85
Total Adjustments	960	(348)
Net cash provided by operating activities	$ 3,713	$ 2,128

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	SIX MONTHS ENDED JUNE 30, 2000	SIX MONTHS ENDED JUNE 30, 1999
	(UNAUDITED)	
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed	$ 581	$ 469
Cost of bonds, at market sold	11,813	18,878
Cost of bonds, at market matured or redeemed	3,748	3,385
Cost of equity securities sold	2,811	1,731
Realized capital gains (losses)	(55)	77
Purchases of fixed maturities	(21,075)	(32,272)
Purchases of equity securities	(3,093)	(1,684)
Mortgage, policy and collateral loans granted	(1,103)	(2,224)
Repayments of mortgage, policy and collateral loans	904	1,953
Sales of securities available for sale	2,894	3,042
Maturities of securities available for sale	1,102	690
Purchases of securities available for sale	(4,273)	(4,509)
Sales of flight equipment	79	242
Purchases of flight equipment	(2,146)	(2,310)
Net additions to real estate and other fixed assets	(240)	(143)
Sales or distributions of other invested assets	2,279	1,689
Investments in other invested assets	(2,676)	(2,634)
Change in short-term investments	588	486
Investments in partially-owned companies	--	40
Net cash used in investing activities	(7,862)	(13,094)
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits	2,161	7,541
Change in trust deposits and deposits due to banks and other depositors	(190)	255
Change in commercial paper	975	185
Proceeds from notes, bonds, loans and mortgages payable	5,537	7,924
Repayments on notes, bonds, loans and mortgages payable	(4,447)	(5,079)
Proceeds from guaranteed investment agreements	3,772	2,095
Maturities of guaranteed investment agreements	(2,871)	(2,411)
Proceeds from subsidiary company preferred stock issued	350	--
Proceeds from common stock issued	85	152
Cash dividends to shareholders	(155)	(140)
Acquisition of treasury stock	(920)	(135)
Proceeds from redemption of Premium Equity Redemption Cumulative Security Units	--	431
Other -- net	34	15
Net cash provided by financing activities	4,331	10,833
Change in cash	182	(133)
Cash at beginning of period	132	303
Cash at end of period	$ 314	$ 170

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,	
	2000	1999	2000	1999
Net income	$2,753	$ 2,476	$1,407	$1,277
Other comprehensive income:				
Unrealized depreciation of investments -- net of reclassification adjustments	(579)	(1,344)	(594)	(436)
Deferred income tax benefit on changes	199	499	222	174
Foreign currency translation adjustments	4	(279)	(45)	(36)
Applicable income tax benefit on changes	24	5	5	8
Total	(352)	(1,119)	(412)	(290)
Comprehensive income	$2,401	$ 1,357	$ 995	$ 987

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2000
(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, 1999.

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. Following are the net income per share figures, before and after adjustment for the common stock split in the form of a 50 percent common stock dividend paid July 28, 2000:

	SIX MONTHS		SECOND QUARTER	
	2000	1999	2000	1999
Pre-split -- basic	$1.78	$1.60	$0.91	$0.83
Post-split -- basic	$1.19	$1.06	$0.61	$0.55
Pre-split -- diluted	$1.76	$1.58	$0.90	$0.81
Post-split -- diluted	$1.17	$1.05	$0.60	$0.54

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. Following are the dividend per share figures before and after adjustment for the stock split:

	SIX MONTHS		SECOND QUARTER	
	2000	1999	2000	1999
Pre-split	$0.100	$0.090	$0.050	$0.045
Post-split	$0.067	$0.060	$0.033	$0.030

c) Cash flow information for the six month periods ended June 30, 2000 and 1999 is as follows:

	2000	1999
	(IN MILLIONS)	
Income taxes paid	$ 718	$ 696
Interest paid	$1,187	$1,075

d) Segment Information:

The following table summarizes the operations by major operating segment for the first six months and second quarter of 2000 and 1999 (in millions):

	OPERATING SEGMENTS			
	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Revenues(1):				
General Insurance	$ 9,841	$ 9,129	$ 5,059	$ 4,656
Life Insurance	10,018	8,845	5,098	4,491
Financial Services	1,870	1,603	975	814
Asset Management	593	456	296	240
Other	(6)	(13)	(2)	(6)
Total	$22,316	$20,020	$11,426	$10,195
Operating income:				
General Insurance	$ 1,771	$ 1,794	$ 884	$ 903
Life Insurance	1,649	1,386	866	736
Financial Services	585	506	304	255
Asset Management	210	131	106	73
Other	(128)	(100)	(64)	(51)
Total	$ 4,087	$ 3,717	$ 2,096	$ 1,916

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(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 2000 and 1999 (in millions):

	GENERAL INSURANCE			
	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Revenues:				
Domestic Brokerage Group	$5,109	$4,822	$2,650	$2,396
Foreign General	3,247	2,999	1,654	1,569
Other	1,485	1,308	755	691
Total	$9,841	$9,129	$5,059	$4,656
Operating income before realized capital gains(1):				
Domestic Brokerage Group	$ 972	$ 841	$ 515	$ 411
Foreign General	504	514	241	262
Other	286	300	131	169
Total	$1,762	$1,655	$ 887	$ 842

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(1) Realized capital gains 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 2000 and 1999 (in millions):

	LIFE INSURANCE			
	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Revenues:				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	$ 4,676	$4,011	$2,408	$2,086
American Life Insurance Company	2,750	2,526	1,378	1,251
Domestic Life	2,364	2,108	1,198	1,056
Other	228	200	114	98
Total	$10,018	$8,845	$5,098	$4,491
Operating income before realized capital gains(1):				
American International Assurance Company Ltd. and Nan Shan Life Insurance Company, Ltd.	$ 673	$ 561	$ 360	$ 298
American Life Insurance Company	372	339	190	174
Domestic Life	625	504	326	275
Other	37	31	19	17
Total	$ 1,707	$1,435	$ 895	$ 764

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(1) Realized capital gains 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 2000 and 1999 (in millions):

	FINANCIAL SERVICES			
	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2000	1999	2000	1999
Revenues:				
International Lease Finance Corporation	$1,157	$1,077	$607	$565
AIG Financial Products Corp.	451	306	239	138
AIG Trading Group Inc.	135	128	62	64
Other	127	92	67	47
Total	$1,870	$1,603	$975	$814
Operating income:				
International Lease Finance Corporation	$ 310	$ 284	$171	$151
AIG Financial Products Corp.	278	196	139	95
AIG Trading Group Inc.	35	67	13	28
Other	(38)	(41)	(19)	(19)
Total	$ 585	$ 506	$304	$255

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 $(55) million and $77 million for the first six months and $(34) million and $27 million for the second quarter of 2000 and 1999, respectively.

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

g) In June 1998, FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). This statement requires AIG to recognize all derivatives in the consolidated balance sheet measuring these derivatives at fair value. The recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative. Currently, AIGTG and AIGFP present, in all material respects, the changes in fair value of their derivative transactions as a component of AIG's operating income. AIG is evaluating the impact of FASB 133 with respect to derivative transactions entered into by other AIG operations. AIG believes that the impact of FASB 133 on its results of operations, financial condition or liquidity will not be significant. FASB 133 is effective for the year commencing January 1, 2001.

AMERICAN INTERNATIONAL GROUP, INC.

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

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 domestic operations of Transatlantic Holdings, Inc. (Transatlantic), Personal Lines, including 21st Century Insurance Group (21st Century) and Mortgage Guaranty.

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 includes 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 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, 2000 and 1999 were as follows:

(in millions)

	2000	1999
Net premiums written:		
Domestic	$5,651	$5,439
Foreign	3,079	2,806
Total	$8,730	$8,245
Net premiums earned:		
Domestic	$5,550	$5,010
Foreign	2,959	2,743
Total	$8,509	$7,753
Adjusted underwriting profit:		
Domestic	$ 227	$ 148
Foreign	212	270
Total	$ 439	$ 418
Net investment income:		
Domestic	$1,031	$ 993
Foreign	292	244
Total	$1,323	$1,237
Operating income before realized capital gains:		
Domestic	$1,258	$1,141
Foreign	504	514
Total	1,762	1,655
Realized capital gains	9	139
Operating income	$1,771	$1,794

During the first six months of 2000, the net premiums written and net premiums earned in AIG's general insurance operations increased 5.9 percent and 9.7 percent, respectively, from those of 1999.

General insurance domestic net premiums written and net premiums earned for the six month periods ending June 30, 2000 and 1999 were as follows:

(in millions)

	2000	1999
Net premiums written:		
DBG	$4,200	$4,193
Personal Lines	1,233	1,056
Mortgage Guaranty	218	190
Total	$5,651	$5,439
Net premiums earned:		
DBG	$4,183	$3,839
Personal Lines	1,147	978
Mortgage Guaranty	220	193
Total	$5,550	$5,010

During the latter part of 1999, the commercial insurance market continued to experience some rate increases. However, this market remains competitive and excessively capitalized. DBG continued to monitor its operations, canceling, non-renewing or losing business where underwriting and pricing standards could not be achieved. During the first six months of 2000, DBG declined to renew $202 million of business. DBG has been able to sustain some growth in various specialty markets, such as pollution, excess liability and risk management, where AIG provides cost effective coverages for large complex risks, underwriting flexibility, and creative risk financing solutions. Virtually all areas of DBG experienced rate increases and in some classes such as health care, property and surplus lines rates are rising more rapidly. Excluding non-renewed business DBG's net premiums written increased approximately five percent.

As reflected in the preceding table showing the distribution of net premiums written, domestic growth was primarily achieved through the growth in the personal auto insurance segment of Personal Lines. Personal Lines net premiums written increased $177 million in the first six months of 2000 over the same period of 1999. The increase was related to the significant growth in the number of policies issued with respect to the preferred, standard and non-standard auto risks.

Growth of 9.8 percent and 7.9 percent for foreign general insurance net premiums written and net premiums earned, respectively, in the first six months of 2000 over 1999 reflects growth of operations in the United Kingdom and the Far East. Foreign general insurance operations produced 35.3 percent of the general insurance net premiums written in the first six months of 2000 and 34.0 percent in 1999.

Differences in foreign exchange rates during 2000 relative to 1999 had a negligible effect on foreign general insurance net premiums written when translated from original currencies into U.S. dollars. (See also the discussion under "Capital Resources" herein.)

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 derived as the sum of losses and loss expenses incurred divided by net premiums earned. The expense ratio is derived as 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:

	2000	1999
Domestic:		
Loss Ratio	81.02	81.21
Expense Ratio	16.23	16.18
Combined Ratio	97.25	97.39
Foreign:		
Loss Ratio	64.12	62.64
Expense Ratio	28.92	28.26
Combined Ratio	93.04	90.90
Consolidated:		
Loss Ratio	75.14	74.64
Expense Ratio	20.71	20.29
Combined Ratio	95.85	94.93

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 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 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 which is 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 $439 million in the first six months of 2000 and $418 million in the same period of 1999. 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 $44 million in the first six months of 2000. AIG's gross incurred losses from catastrophes approximated $112 million in 2000. There were no catastrophe losses in the first six months of 1999.

If catastrophes were excluded from the losses incurred, the pro forma consolidated statutory general insurance ratios would be as follows:

	2000	1999
Loss Ratio	74.62	74.64
Expense Ratio	20.71	20.29
Combined Ratio	95.33	94.93

AIG presents calculations of general insurance ratios which exclude catastrophe losses because the impact of catastrophes can fluctuate widely from period to period making comparisons of recurring type business more difficult. Thus, the pro forma results are comparable and allow the reader to focus on the results of AIG's core business, underwriting.

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 2000 increased 6.9 percent when compared to the same period of 1999. The growth in net investment income in 2000 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 gains were $9 million in the first six months of 2000 and $139 million in 1999. These realized gains resulted from the ongoing management of the general insurance investment portfolios within the overall objectives of the general insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first six months of 2000 decreased 1.3 percent when compared to the same period of 1999. The contribution of general insurance operating income to income before income taxes and minority interest was 43.3 percent in 2000 compared to 48.3 percent in 1999.

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 $19.45 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at June 30, 2000 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, 1999, approximately 50 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances were collateralized. The remaining 50 percent of the general reinsurance assets were from authorized reinsurers and over 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, 2000, these distribution percentages have not significantly changed.

AIG's allowance for estimated unrecoverable reinsurance has not changed significantly from December 31, 1999 when AIG had allowances for unrecoverable reinsurance approximating $78 million. At that date, and prior to this allowance, AIG had no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

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

At June 30, 2000, the consolidated general reinsurance assets of $19.45 billion include reinsurance recoverables for paid losses and loss expenses of $2.67 billion and $13.69 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, 2000 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, 2000, general insurance reserves for losses and loss expenses (loss reserves) amounted to $38.36 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, 2000, general insurance net loss reserves increased $69 million to $24.67 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, 2000. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on such future results of operations.

In a very broad sense, the general loss reserves can be categorized into two distinct groups: one group being long tail casualty lines of business. 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 five percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms and current and future estimates of monetary inflation and social inflation. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs. Therefore, AIG's carried net long tail loss reserves are judgmentally set as well as tested for reasonableness using the most appropriate loss trend factors for each class of business. In the evaluation of AIG's net loss reserves, loss trend factors vary slightly, depending on the particular class and nature of the business involved. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience.

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

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

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites (hereinafter referred to collectively as environmental claims) and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage. However, AIG currently underwrites 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 the Congressional reauthorization of Superfund dramatically changes, thereby reducing or increasing litigation and cleanup costs. Additionally, proposed legislation, if passed in current form, would be expected to reduce ultimate asbestos exposure.

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, 2000 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at June 30, 2000 and 1999 was as follows:

(in millions)

	2000		1999	
	GROSS	NET	GROSS	NET
Asbestos:				
Reserve for losses and loss expenses at beginning of year	$1,093	$306	$ 964	$259
Losses and loss expenses incurred	29	14	342	60
Losses and loss expenses paid	(206)	(51)	(140)	(27)
Reserve for losses and loss expenses at end of period	$ 916	$269	$1,166	$292
Environmental:				
Reserve for losses and loss expenses at beginning of year	$1,519	$585	$1,536	$604
Losses and loss expenses incurred	3	2	49	8
Losses and loss expenses paid	(47)	(25)	(72)	(32)
Reserve for losses and loss expenses at end of period	$1,475	$562	$1,513	$580
Combined:				
Reserve for losses and loss expenses at beginning of year	$2,612	$891	$2,500	$863
Losses and loss expenses incurred	32	16	391	68
Losses and loss expenses paid	(253)	(76)	(212)	(59)
Reserve for losses and loss expenses at end of period	$2,391	$831	$2,679	$872

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at June 30, 2000 and December 31, 1999 were estimated as follows:

(in millions)

	2000		1999	
	GROSS	NET	GROSS	NET
Combined	$ 920	$338	$ 930	$352

A summary of asbestos and environmental claims count activity for the six month periods ended June 30, 2000 and 1999 was as follows:

	2000			1999		
	ASBESTOS	ENVIRONMENTAL	COMBINED	ASBESTOS	ENVIRONMENTAL	COMBINED
Claims at beginning of year	6,746	13,432	20,178	6,388	16,560	22,948
Claims during period:						
Opened	395	909	1,304	536	1,585	2,121
Settled	(61)	(348)	(409)	(155)	(595)	(750)
Dismissed or otherwise resolved	(287)	(1,766)	(2,053)	(216)	(3,240)	(3,456)
Claims at end of period	6,793	12,227	19,020	6,553	14,310	20,863

The average cost per claim settled, dismissed or otherwise resolved for the six month periods ended June 30, 2000 and 1999 was as follows:

	2000		1999	
	GROSS	NET	GROSS	NET
Asbestos	$592,000	$146,600	$377,100	$72,800
Environmental	22,200	11,800	18,800	8,300
Combined	102,800	30,900	50,400	14,000

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, 2000 and 1999 were as follows:

	2000		1999	
	GROSS	NET	GROSS	NET
Involuntary survival ratios:				
Asbestos	2.8	3.9	3.6	5.2
Environmental	19.1	18.3	16.9	17.5
Combined	6.9	9.4	7.2	10.6

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 1999 were $15 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 2000.

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, 2000 and 1999 were as follows:

(in millions)

	2000	1999
Premium income:		
Domestic	$ 570	$ 431
Foreign	6,095	5,426
Total	$ 6,665	$ 5,857
Net investment income:		
Domestic	$ 1,879	$ 1,722
Foreign	1,532	1,315
Total	$ 3,411	$ 3,037
Operating income before realized capital losses:		
Domestic	$ 625	$ 504
Foreign	1,082	931
Total	1,707	1,435
Realized capital losses	(58)	(49)
Operating income	$ 1,649	$ 1,386
Life insurance in-force:*		
Domestic	$ 83,697	$103,049
Foreign	495,615	481,910
Total	$579,312	$584,959

* Amounts presented were as at June 30, 2000 and December 31, 1999, respectively.

AIG's life premium income during the first six months of 2000 represented a 13.8 percent increase from the same period in 1999. Foreign life operations produced 91.5 percent and 92.6 percent of the life premium income in 2000 and 1999, respectively.

The traditional life products, particularly individual life products, were major contributors to the growth in foreign premium income and resulting investment income, particularly in those countries in which AIA and Nan Shan operate. A mixture of traditional, accident and health and financial products are being sold in Japan through ALICO.

Differences in foreign exchange rates during 2000 relative to 1999 had a negligible effect on foreign life premium income when translated from original currencies into U.S. dollars.

Life insurance net investment income increased 12.3 percent during the first six months of 2000. The growth in net investment income was primarily attributable to both foreign and domestic operations 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 were $58 million in 2000 and $49 million in 1999. 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 2000 increased 18.9 percent to $1.65 billion. Excluding realized capital losses from life insurance operating income, the percent increase would also be 18.9. The contribution of life insurance operating income to income before income taxes and minority interest amounted to 40.3 percent during the first six months of 2000 compared to 37.3 percent in the same period of 1999.

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 investments may be at a yield below that of the interest required for the accretion of the policy liabilities. At December 31, 1999, the average duration of the investment portfolio in Japan was 5.6 years.

Additionally, there exists a future investment risk that is 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. With respect to the investment of these future premium receipts, the average maturity is estimated to be 6.0 years. These durations compare with an estimated average duration of 9.4 years for the corresponding policy liabilities. These durations have not changed significantly during 2000. 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. Domestically, active monitoring assures appropriate asset-liability matching as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

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

Financial Services Operations

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. (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, 2000 and 1999 were as follows:

(in millions)

	2000	1999
Revenues:		
International Lease Finance Corporation	$1,157	$1,077
AIG Financial Products Corp.*	451	306
AIG Trading Group Inc.*	135	128
Other	127	92
Total	$1,870	$1,603
Operating income:		
International Lease Finance Corporation	$ 310	$ 284
AIG Financial Products Corp.	278	196
AIG Trading Group Inc.	35	67
Other, including intercompany adjustments	(38)	(41)
Total	$ 585	$ 506

* Represents commissions, transaction and other fees.

Financial services operating income increased 15.8 percent in the first six months of 2000 over 1999.

Financial services operating income represented 14.3 percent of AIG's income before income taxes and minority interest in the first six months of 2000. This compares to 13.6 percent in the same period of 1999.

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 2000 increased 7.4 percent from 1999. 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 2000, operating income increased 9.1 percent from 1999. The composite borrowing rates at the end of the first six months of 2000 and 1999 were 6.33 percent and 5.85 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, 2000, there were 382 aircraft subject to operating leases and there were two 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 2000 increased 47.2 percent from the same period of 1999. During the first six months of 2000, operating income increased 42.3 percent from the same period of 1999. 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 its revenues from market making and trading activities, as principal, in foreign exchange, interest rates and precious and base metals. Revenues in the first six months of 2000 increased 5.4 percent from the same period of 1999. During the first six months of 2000, operating income decreased 47.0 percent from the same period of 1999. 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. (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 invested assets of institutions, including insurance companies and pension funds, 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, 2000 and 1999 were as follows:

(in millions)

	2000	1999
Revenues	$593	$456
Operating income	$210	$131

These increases were primarily attributable to increased fees from the management of the variable annuity business and mutual fund assets by SAAMCo.

Asset management operating income in the first six months of 2000 increased 60.4 percent when compared to the same period of 1999.

Asset management operating income represented 5.1 percent of AIG's income before income taxes and minority interest in the first six months of 2000. This compares to 3.5 percent in the same period of 1999.

At June 30, 2000, AIG's third party assets under management, including both retail mutual funds and institutional accounts approximated $35 billion.

Other Operations

Other realized capital losses amounted to $6 million and $13 million in the first six months of 2000 and 1999, 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 2000, net deductions amounted to $122 million. In the same period of 1999, net deductions amounted to $87 million.

Income before income taxes and minority interest amounted to $4.09 billion in the first six months of 2000 and $3.72 billion in the same period of 1999.

In the first six months of 2000, AIG recorded a provision for income taxes of $1.21 billion compared to the provision of $1.09 billion in the same period of 1999. These provisions represent effective tax rates of 29.7 percent in the first six months of 2000 and 29.4 percent in the same period of 1999.

Minority interest represents minority shareholders' equity in income of certain majority-owned consolidated subsidiaries. Minority interest amounted to $121 million and $150 million in the first six months of 2000 and 1999, respectively.

Net income amounted to $2.75 billion in the first six months of 2000 and $2.48 billion in the same period of 1999. The increases in net income over the periods resulted from those factors described above.

CAPITAL RESOURCES

At June 30, 2000, AIG had total capital funds of $34.81 billion and total borrowings of $35.96 billion. At that date, $32.68 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, 2000 and December 31, 1999 were as follows:

(in millions)

	2000	1999
GIAs -- AIGFP	$10,331	$ 9,430
Commercial Paper:		
AIG Funding, Inc.	434	888
ILFC(a)	4,285	2,958
A.I. Credit Corp.	567	475
AIG Finance (Taiwan) Limited(a)	93	83
Total	5,379	4,404
Medium Term Notes:		
ILFC(a)	2,924	3,226
AIG	703	481
Total	3,627	3,707
Notes and Bonds Payable:		
ILFC(a)	5,119	5,016
AIGFP	8,560	7,895
AIG	712	705
Total	14,391	13,616
Loans and Mortgages Payable:		
ILFC(a)(b)	1,026	670
AIG Finance (Hong Kong) Limited(a)	402	566
AIG Consumer Finance Group, Inc.(a)	543	334
AIG	258	257
Total	2,229	1,827
Total Borrowings	35,957	32,984
Borrowings not guaranteed by AIG	14,392	12,853
Matched GIA borrowings	10,331	9,430
Matched notes and bonds payable -- AIGFP	7,957	7,370
	32,680	29,653
Remaining borrowings of AIG	$ 3,277	$ 3,331

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

The maturity distributions of total borrowings at June 30, 2000 and December 31, 1999 were as follows:

(in millions)

	2000	1999
Short-term borrowings	$ 9,270	$10,088
Long-term borrowings(a)	26,687	22,896
Total borrowings	$35,957	$32,984

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

During the first six months of 2000, AIGFP increased the aggregate principal amount outstanding of its notes and bonds payable to $8.56 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, A.I. Credit Corp. (AICCO) and AIG Finance (Taiwan) Limited -- (AIGF-Taiwan), a consumer finance subsidiary in Taiwan, issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's, ILFC's or AIGF-Taiwan's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. (See also the discussion under "Derivatives" herein.)

AIG and Funding have entered into revolving credit facilities (collectively, the Facility) aggregating $1.2 billion. The Facility consists of $700 million in short-term revolving credit facilities and a $500 million five year revolving credit facility. The Facility can be used for general corporate purposes and also 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, 2000.

At June 30, 2000, ILFC had decreased the aggregate principal amount outstanding of its medium term and term notes to $8.04 billion, a net decrease of $199 million, and recorded, a $400 million increase in bank loans, a net decline in its capital lease obligations of $44 million and a net increase in its commercial paper of $1.33 billion. At June 30, 2000, ILFC had $1.10 billion in aggregate principal amount of debt securities registered for issuance from time to time. In addition, ILFC established a Euro Medium Term Note Program for $2.0 billion, under which $771 million in notes were sold through June 30, 2000.

ILFC has an Export Credit Facility, up to a maximum of $4.3 billion, for approximately 75 aircraft to be delivered from 1999 through 2001. ILFC has the right, but is not required, to use the facility to fund 85 percent of each aircraft's purchase price. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on the first 75 aircraft depending on the delivery date of the aircraft. Through June 30, 2000, ILFC borrowed $1.80 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 2000, AIG issued $234 million principal amount of Medium Term Notes and $12 million of previously issued notes matured.

At June 30, 2000, AIG had $781 million in aggregate principal amount of debt securities registered for issuance from time to time. On July 31, 2000, AIG redeemed the $100 million principal amount 2 1/4% Cash Exchangeable Equity-Linked Notes due July 30, 2004.

AIG's capital funds increased $1.50 billion during the first six months of 2000. Unrealized appreciation of investments, net of taxes decreased $380 million. During the first six months of 2000, the cumulative translation adjustment loss, net of taxes decreased $28 million. (See also the discussion under "Operational Review" and "Liquidity" herein.) Retained earnings increased $2.60 billion, resulting from net income less dividends.

During the period from January 1, 2000 through June 30, 2000, AIG repurchased in the open market 10,351,600 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, 2000, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. To AIG's knowledge, no AIG company is on any regulatory or similar "watch list". (See also the discussion under "Liquidity" herein.)

The National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations. At June 30, 2000, the adjusted capital of each of AIG's domestic general and life companies exceeded each of their RBC standards by considerable margins.

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

LIQUIDITY

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

At June 30, 2000, AIG's consolidated invested assets included $6.75 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first six months of 2000 amounted to $3.71 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 $7.3 billion in pre-tax cash flow during the first six months of 2000. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately $4.6 billion in investment income cash flow during the first six months of 2000. 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 $6.3 billion in cash and short-term investments at June 30, 2000. 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 $19 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $24 billion of fixed income securities and marketable equity securities during the first six months of 2000.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued of $2.16 billion and $2.05 billion, and real estate of $1.63 billion and $1.62 billion at June 30, 2000 and December 31, 1999, respectively:

(dollars in millions)

	JUNE 30, 2000		December 31, 1999	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
General insurance	$ 40,598	20.6%	$ 39,135	20.6%
Life insurance	91,357	46.3	87,355	46.1
Financial services and asset management	64,708	32.8	62,548	33.0
Other	662	0.3	651	0.3
Total	$197,325	100.0%	$189,689	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, 2000 and December 31, 1999:

(dollars in millions)

JUNE 30, 2000	GENERAL INSURANCE	LIFE INSURANCE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	FOREIGN
Fixed maturities:						
Available for sale, at market value(a)	$17,102	$66,117	$ 83,219	63.1%	51.9%	48.1%
Held to maturity, at amortized cost	11,915	--	11,915	9.0	100.0	--
Equity securities, at market value(b)	4,075	2,431	6,506	4.9	50.8	49.2
Mortgage loans on real estate, policy and collateral loans	58	10,659	10,717	8.1	56.2	43.8
Short-term investments, including time deposits, and cash	1,371	4,933	6,304	4.8	40.1	59.9
Real estate	375	1,148	1,523	1.2	16.9	83.1
Investment income due and accrued	556	1,542	2,098	1.6	48.3	51.7
Other invested assets	5,146	4,527	9,673	7.3	84.9	15.1
Total	$40,598	$91,357	$131,955	100.0%	58.0%	42.0%

(a)Includes $788 million of bonds trading securities, at market value.
(b)Includes $717 million of non-redeemable preferred stocks, at market value.

(dollars in millions)

December 31, 1999	General Insurance	Life Insurance	Total	Percent of Total	Percent Distribution Domestic	Foreign
Fixed maturities:						
Available for sale, at market value(a)	$16,903	$61,022	$ 77,925	61.6%	53.5%	46.5%
Held to maturity, at amortized cost	12,078	--	12,078	9.5	100.0	--
Equity securities, at market value(b)	4,000	2,503	6,503	5.1	50.2	49.8
Mortgage loans on real estate, policy and collateral loans	70	10,420	10,490	8.3	57.0	43.0
Short-term investments, including time deposits, and cash	977	5,710	6,687	5.3	45.1	54.9
Real estate	381	1,141	1,522	1.2	18.5	81.5
Investment income due and accrued	576	1,421	1,997	1.6	48.0	52.0
Other invested assets	4,150	5,138	9,288	7.4	85.1	14.9
Total	$39,135	$87,355	$126,490	100.0%	59.5%	40.5%

(a)Includes $1.04 billion of bonds trading securities, at market value.
(b)Includes $697 million 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 maturities 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.

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

At June 30, 2000, approximately 58.0 percent of the fixed maturities investments were domestic securities. Approximately 39 percent of such domestic securities were rated AAA. Approximately 13 percent were below investment grade or not rated.

A significant portion of the foreign insurance fixed income portfolio is rated by Moody's, Standard & Poor's (S&P) or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG annually reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At June 30, 2000, approximately 12 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 12 percent were below investment grade or not rated at that date. A large portion of these fixed maturity securities are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

At June 30, 2000, approximately 17 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 17 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 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 8.1 percent of AIG's insurance invested assets at June 30, 2000. AIG's insurance operations' holdings of real estate mortgages amounted to $6.76 billion of which 74.8 percent was domestic. At June 30, 2000, 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, 2000, AIG's insurance holdings of collateral loans amounted to $1.02 billion, all of which were foreign. It is AIG's strategy to enter into mortgage and collateral loans as an adjunct primarily to life insurance fixed maturity investments. AIG's policy loans increased from $2.82 billion at December 31, 1999 to $2.93 billion at June 30, 2000.

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, 2000 and December 31, 1999. AIG has refined its 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 are used to construct the historical scenarios. For each scenario, each transaction is re-priced. Portfolio, business unit, and finally AIG-wide scenario values are 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 is assumed in computing the VaR figure. At June 30, 2000 and December 31, 1999 the VaR of AIG's insurance segments was approximately $756 million and $863 million for general insurance, respectively, and $1.12 billion and $1.19 billion for life insurance, respectively.

The following table presents the VaR of each component of market risk for each of AIG's insurance segments as of June 30, 2000 and December 31, 1999. 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	2000	1999	2000	1999
Interest rate	$434	$338	$1,106	$950
Currency	42	29	423	566
Equity	637	798	293	396

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, 2000 and December 31, 1999. (See also the discussions under "Operational Review: Financial Services Operations", "Operational Review: Asset Management Operations", "Capital Resources" and "Derivatives" herein.)

(dollars in millions)

	2000		1999	
	INVESTED ASSETS	PERCENT OF TOTAL	INVESTED ASSETS	PERCENT OF TOTAL
Flight equipment primarily under operating leases, net of accumulated depreciation	$19,048	29.5%	$17,334	27.7%
Unrealized gain on interest rate and currency swaps, options and forward transactions	8,175	12.6	7,931	12.7
Securities available for sale, at market value	13,214	20.4	12,954	20.7
Trading securities, at market value	3,870	6.0	4,391	7.0
Securities purchased under agreements to resell, at contract value	9,774	15.1	10,897	17.4
Trading assets	7,445	11.5	5,793	9.3
Spot commodities, at market value	530	0.8	683	1.1
Other, including short-term investments	2,652	4.1	2,565	4.1
Total	$64,708	100.0%	$62,548	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 2000, ILFC acquired flight equipment costing $2.15 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, 2000 and December 31, 1999, 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, 2000 and December 31, 1999. 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, 2000 and December 31, 1999, the VaR with respect to the aforementioned net fair value of ILFC was approximately $32 million and $50 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, 2000, 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, 2000. There have been no significant downgrades through August 1, 2000. 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, 2000 were as follows:

(in millions)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
Securities available for sale, at market value	$ 705	$ 668
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions(a)(b)	8,175	7,709
Trading assets	5,680	4,059
Spot commodities, at market value	15	--
Trading liabilities	--	2,103
Securities and spot commodities sold but not yet purchased, at market value	309	--

(a)These amounts are also presented as the respective balance sheet amounts.
(b)At June 30, 2000, AIGTG's replacement values with respect to interest rate and currency swaps were $311 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, 2000, the unrealized gains and losses remaining after the benefit of the offsets were $41 million and $4 million, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AIGFP and AIGTG are both exposed to the risk of loss of fair value 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, 2000 and December 31, 1999. AIG has refined its 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 are used to construct the historical scenarios. For each scenario, each transaction is re-priced. Portfolio, business unit, and finally AIG-wide scenario values are 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).

Given the distinct business strategies at AIGFP and AIGTG, the VaR calculations used different time periods to measure market exposures. Many of AIGFP's customized, longer-term contracts may require several days to transact and hedge. AIG therefore used a one month holding

period to measure market exposures for AIGFP.
The large majority of AIGTG's contracts can be arranged and hedged within one day. AIG therefore used a one day holding period to measure market exposures at AIGTG.

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, 2000 and December 31, 1999. VaR with respect to combined operations cannot be derived by aggregating the individual risk presented herein.

(in millions)

	AIGFP(A)		AIGTG(B)	
MARKET RISKS	2000	1999	2000	1999
Combined	$18	$24	$ 4	$ 5
Interest rate	18	23	3	3
Currency	--	--	2	4
Equity/Commodity	1	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.

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 that provide for legally enforceable set-offs in the event of a 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 derivative transactions at June 30, 2000 and December 31, 1999.

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 $28.6 billion at June 30, 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 at June 30, 2000, approximated $7.79 billion. The net replacement value for futures and forward contracts at June 30, 2000, approximated $13 million. 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, 2000 and December 31, 1999:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2000	TOTAL 1999
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$ 94,810	$140,744	$ 79,742	$ 7,188	$322,484	$281,682
Currency swaps	39,688	29,425	24,583	4,699	98,395	83,673
Swaptions and equity swaps	16,184	25,915	9,119	3,202	54,420	48,002
Total	$150,682	$196,084	$113,444	$15,089	$475,299	$413,357
Futures and forward contracts:						
Exchange traded futures contracts contractual amount	$ 13,170	--	--	--	$ 13,170	$ 6,587
Over the counter forward contracts contractual amount	$ 17,886	$ 311	$ 47	--	$ 18,244	$ 21,873

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At June 30, 2000 and December 31, 1999, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 2000	TOTAL 1999
Counterparty credit quality:				
AAA	$2,632	$ --	$2,632	$2,067
AA	2,584	13	2,597	2,839
A	1,415	--	1,415	1,576
BBB	1,036	--	1,036	997
Below investment grade	124	--	124	55
Total	$7,791	$ 13	$7,804	$7,534

At June 30, 2000 and December 31, 1999, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 2000	TOTAL 1999
Non-U.S. banks	$2,497	$ 5	$2,502	$2,515
Insured municipalities	389	--	389	352
U.S. industrials	849	--	849	780
Governmental	256	--	256	180
Non-U.S. financial service companies	215	--	215	158
Non-U.S. industrials	1,139	--	1,139	1,117
Special purpose	991	--	991	716
U.S. banks	181	8	189	510
U.S. financial service companies	1,082	--	1,082	1,112
Supranationals	192	--	192	94
Total	$7,791	$ 13	$7,804	$7,534

The following tables provide the contractual and notional amounts of AIGTG's derivatives portfolio at June 30, 2000 and December 31, 1999. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the June 30, 2000 balances based upon the expected timing of the future cash flows.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at June 30, 2000 and December 31, 1999. These values do not represent the credit risk to AIGTG.

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

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at June 30, 2000 and December 31, 1999:

(in millions)

	REMAINING LIFE					
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 2000	TOTAL 1999
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	$ 21,760	$ 2,952	$ 35	$ --	$ 24,747	$ 18,908
Forwards	$225,945	$17,836	$ 823	$ 1	$244,605	$220,428
Over the counter purchased options	$ 70,564	$16,971	$21,451	$122	$109,108	$ 83,871
Over the counter sold options(a)	$ 68,978	$17,421	$21,597	$176	$108,172	$ 86,726
Notional amount:						
Interest rate swaps and forward rate agreements	$ 32,498	$34,115	$ 5,753	$ 59	$ 72,425	$ 80,436
Currency swaps	1,257	6,163	836	--	8,256	8,359
Swaptions	2,493	7,121	1,727	74	11,415	9,996
Total	$ 36,248	$47,399	$ 8,316	$133	$ 92,096	$ 98,791
Credit exposure:						
Futures, forwards, swaptions and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	$ 4,638	$ 2,643	$ 401	$ 33	$ 7,715	$ 7,889
Master netting arrangements	(2,668)	(2,003)	(218)	(19)	(4,908)	(4,580)
Collateral	(95)	(26)	(12)	--	(133)	(209)
Net replacement value(b)	$ 1,875	$ 614	$ 171	$ 14	$ 2,674	$ 3,100

(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, 2000 and December 31, 1999, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in millions)

	NET REPLACEMENT VALUE	
	2000	1999
Counterparty credit quality:		
AAA	$ 212	$ 276
AA	976	1,241
A	1,038	1,010
BBB	227	256
Below investment grade	37	49
Not externally rated, including exchange traded futures and options*	184	268
Total	$2,674	$3,100
Counterparty breakdown by industry:		
Non-U.S. banks	$ 986	926
U.S. industrials	76	70
Governmental	125	178
Non-U.S. financial service companies	458	698
Non-U.S. industrials	199	176
U.S. banks	272	401
U.S. financial service companies	374	383
Exchanges*	184	268
Total	$2,674	$3,100

* 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, FASB issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). This statement requires AIG to recognize all derivatives in the consolidated balance sheet measuring these derivatives at fair value. The recognition of the change in the fair value of a derivative depends on a number of factors, including the intended use of the derivative. Currently, AIGTG and AIGFP present, in all material respects, the changes in fair value of their derivative transactions as a component of AIG's operating income. AIG is evaluating the impact of FASB 133 with respect to derivative transactions entered into by other AIG operations. AIG believes that the impact of FASB 133 on its results of operations, financial condition or liquidity will not be significant. FASB 133 is effective for the year commencing January 1, 2001.

PART II -- OTHER INFORMATION

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

At the Annual Meeting of Shareholders held on May 17, 2000, the Shareholders:

(a) elected eighteen directors as follows:

NOMINEE	SHARES FOR	SHARES WITHHELD
M. Bernard Aidinoff	1,317,283,784	26,681,347
Eli Broad	1,329,713,614	14,251,517
Pei-yuan Chia	1,333,106,994	10,858,137
Marshall A. Cohen	1,332,047,710	11,917,421
Barber B. Conable, Jr.	1,331,704,003	12,261,128
Martin S. Feldstein	1,332,938,067	11,027,064
Ellen V. Futter	1,332,899,996	11,065,135
Leslie L. Gonda	1,328,340,564	15,624,567
Evan G. Greenberg	1,199,601,320	144,363,811
Maurice R. Greenberg	1,198,200,736	145,764,395
Carla A. Hills	1,317,949,550	26,015,581
Frank J. Hoenemeyer	1,331,559,646	12,405,485
Edward E. Matthews	1,203,828,113	140,137,018
Howard I. Smith	1,329,740,250	14,224,881
Thomas R. Tizzio	1,206,341,914	137,623,217
Edmund S.W. Tse	1,329,740,565	14,224,566
Jay S. Wintrob	1,329,809,923	14,155,208
Frank G. Wisner	1,329,637,186	14,327,945

(b) approved, by a vote of 1,146,741,392 shares to 193,585,979 shares, with 3,637,760 abstentions, a proposal to amend the Restated Certificate of Incorporation, as amended, to increase the authorized shares of Common Stock from 2,000,000,000 to 5,000,000,000 shares;

(c) approved, by a vote of 1,246,286,109 shares to 92,433,207 shares, with 5,245,815 abstentions, a proposal to adopt a 1999 Stock Option Plan;

(d) approved, by a vote of 1,339,173,408 shares to 1,680,841 shares, with 3,110,882 abstentions, a proposal to select PricewaterhouseCoopers LLP as independent accountants for 2000;

(e) rejected, by a vote of 322,055,978 shares for and 874,816,490 shares against, with 31,977,838 shares abstaining and 115,114,825 shares not voting, a shareholder proposal requesting AIG to change the composition of the Nominating Committee;

(f) rejected, by a vote of 72,774,083 shares for and 1,140,397,466 shares against, with 15,678,757 shares abstaining and 115,114,825 shares not voting, a shareholder proposal requesting AIG to provide a report on executive compensation;

(g) rejected, by a vote of 83,612,878 shares for and 1,103,687,901 shares against, with 41,549,527 shares abstaining and 115,114,825 shares not voting, a shareholder proposal requesting AIG to distribute certain statistical data on employees;

(h) rejected, by a vote of 332,368,332 shares for and 887,051,277 shares against, with 9,430,697 shares abstaining and 115,114,825 shares not voting, a shareholder proposal requesting AIG to adopt a policy requiring a majority of independent directors; and

(i) rejected, by a vote of 28,320,066 shares for and 1,166,911,627 shares against, with 33,618,613 shares abstaining and 115,114,825 shares not voting, a shareholder proposal requiring AIG to propose multiple nominees for election as directors.

PART II -- OTHER INFORMATION

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

(a) Exhibits
See accompanying Exhibit Index.

(b) There have been no reports on Form 8-K filed during the quarter ended June 30, 2000.

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 11, 2000

EXHIBIT INDEX

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

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,	
	2000(a)	1999	2000	1999
Share information reflects an adjustment on a pro forma basis for a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000.				
Numerator:				
Net income (applicable to common stock)	$2,753	$2,476	$1,407	$1,277
Denominator:				
Basic:				
Average outstanding shares used in the computation of per share earnings:				
Common stock	2,491	2,500	2,491	2,501
Common stock in treasury	(174)	(178)	(178)	(178)
Average outstanding shares -- basic	2,317	2,322	2,313	2,323
Diluted:				
Average outstanding shares used in the computation of per share earnings:				
Common stock	2,491	2,500	2,491	2,501
Common stock in treasury	(174)	(178)	(178)	(178)
Stock options and stock purchase plan (treasury stock method)	26	30	26	30
Average outstanding shares -- diluted	2,343	2,352	2,339	2,353
Net income per share:				
Basic	$ 1.19	$ 1.06	$ 0.61	$ 0.55
Diluted	$ 1.17	$ 1.05	$ 0.60	$ 0.54

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(a) The number of common shares outstanding as of June 30, 2000 was 2,314. The number of common shares that would have been outstanding as of June 30, 2000 assuming the exercise or issuance of all potentially dilutive common shares was 2,340.

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,	
	2000	1999	2000	1999
Income before income taxes and minority interest..........	$4,087	$3,717	$2,096	$1,916
Less -- Equity income (loss) of less than 50% owned persons..	(1)	14	2	5
Add -- Dividends from less than 50% owned persons.........	1	7	1	4
	4,089	3,710	2,095	1,915
Add --				
Fixed charges..	1,284	1,109	613	581
Less --				
Capitalized interest...................................	29	30	15	15
Income before income taxes, minority interest and fixed charges..	$5,344	$4,789	$2,693	$2,481
Fixed charges:				
Interest costs...	$1,222	$1,058	$ 582	$ 556
Rent expense*..	62	51	31	25
Total fixed charges............................	$1,284	$1,109	$ 613	$ 581
Ratio of earnings to fixed charges........................	4.16	4.32	4.39	4.27

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* 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 7.19 and 6.95 for the second quarter and 7.03 and 7.06 for the first six months of 2000 and 1999, 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.

7
1,000,000
U.S. DOLLARS

6-MOS
DEC-31-2000
JAN-01-2000
JUN-30-2000
1
82,577
11,915
12,235
6,711
7,207
1,627
193,224
314
19,692
10,007
281,214
75,631
11,636
0
48,219
25,626
0
0
4,152
30,653
281,214
15,174
4,734
(55)
(122)
13,038
1,292
2,109
4,087
1,213
2,753
0
0
0
2,753
1.19
1.17
24,600
6,394
0
2,678
3,647
24,669
0

Amount represents income before income taxes and minority interest.
Earnings per share information reflects a common stock split in the form of a 50 percent common stock dividend paid July 28, 2000. Prior period financial data schedules have not been restated for this stock split.