

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

FORM 10-Q  
 QUARTERLY REPORT UNDER SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

FOR THE TRANSITION PERIOD FROM TO  
FOR QUARTER ENDED SEPTEMBER 30, 1997 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 (I.R.S. EMPLOYER IDENTIFICATION NUMBER)  
INCORPORATION OR ORGANIZATION)  
70 PINE STREET, NEW YORK, NEW YORK 10270  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (212) 770-7000  
NONE  
FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT.

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

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of September 30, 1997 701,493,275.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET  
(IN THOUSANDS)

DECEMBER 31,  
1996  
SEPTEMBER  
30,  
1997  
(UNAUDITED)

ASSETS:  
Investments and cash:

Fixed maturities:		
Bonds held to maturity, at amortized cost (market value: 1997 -- \$13,368,529; 1996 -- \$12,865,357).....	\$ 12,641,522	\$ 12,258,978
Bonds available for sale, at market value (amortized cost: 1997 -- \$36,721,927; 1996 -- \$34,243,127).....	38,063,454	35,524,932
Bonds trading securities, at market value (cost: 1997 -- \$615,154; 1996 -- \$357,023).....	628,485	364,069
Preferred stocks, at amortized cost (market value: 1997 -- \$528,962; 1996 -- \$591,091).....	239,663	477,247
Equity securities:		
Common stocks (cost: 1997 -- \$4,943,910; 1996 -- \$4,993,799).....	5,995,445	5,989,572
Non-redeemable preferred stocks (cost: 1997 -- \$108,502; 1996 -- \$64,705).....	122,905	76,068
Mortgage loans on real estate, policy and collateral loans -- net.....	8,197,559	7,876,820
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1997 -- \$1,774,072; 1996 -- \$1,465,031).....	15,199,781	13,808,660
Securities available for sale, at market value (cost: 1997 -- \$7,734,250; 1996 -- \$9,775,705).....	7,742,935	9,785,909
Trading securities, at market value.....	2,339,416	2,357,812
Spot commodities, at market value.....	471,153	204,705
Unrealized gain on interest rate and currency swaps, options and forward transactions.....	7,853,575	6,906,012
Trading assets.....	6,044,710	3,793,433
Securities purchased under agreements to resell, at contract value.....	2,065,397	1,642,591
Other invested assets.....	3,462,480	2,915,302
Short-term investments, at cost which approximates market value.....	2,170,374	2,008,123
Cash.....	173,223	58,740
	-----	-----
Total investments and cash.....	113,412,077	106,048,973
Investment income due and accrued.....	1,364,566	1,198,348
Premiums and insurance balances receivable -- net.....	10,429,017	9,617,061
Reinsurance assets.....	17,311,131	16,526,566
Deferred policy acquisition costs.....	6,734,219	6,471,357
Investments in partially-owned companies.....	1,074,477	951,352
Real estate and other fixed assets, net of accumulated depreciation (1997 -- \$1,495,947; 1996 -- \$1,390,225).....	2,257,241	2,122,762
Separate and variable accounts.....	3,789,414	3,271,716
Other assets.....	2,239,943	2,222,867
	-----	-----
Total assets.....	\$158,612,085	\$148,431,002
	=====	=====

See Accompanying Notes to Financial Statements.

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AMERICAN INTERNATIONAL GROUP, INC.

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

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	-----	-----
	(UNAUDITED)	
LIABILITIES:		
Reserve for losses and loss expenses.....	\$ 34,467,122	\$ 33,429,807
Reserve for unearned premiums.....	8,717,407	7,598,928
Future policy benefits for life and accident and health insurance contracts.....	25,253,226	24,002,860
Policyholders' contract deposits.....	10,430,772	9,803,409
Other policyholders' funds.....	2,275,828	2,219,907
Reserve for commissions, expenses and taxes.....	1,874,946	1,511,122
Insurance balances payable.....	2,223,470	1,832,649

Funds held by companies under reinsurance treaties.....	338,513	383,306
Income taxes payable:		
Current.....	638,850	201,978
Deferred.....	691,248	586,703
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements.....	7,279,120	5,723,228
Securities sold under agreements to repurchase, at contract value.....	607,658	3,039,423
Trading liabilities.....	4,887,581	3,313,508
Securities and spot commodities sold but not yet purchased, at market value.....	4,001,156	1,568,542
Unrealized loss on interest rate and currency swaps, options and forward transactions.....	5,146,522	5,414,433
Deposits due to banks and other depositors.....	1,169,507	1,206,374
Commercial paper.....	2,789,568	2,739,388
Notes, bonds and loans payable.....	12,113,038	12,312,805
Commercial paper.....	1,113,111	1,758,588
Notes, bonds, loans and mortgages payable.....	1,239,389	986,505
Separate and variable accounts.....	3,789,414	3,271,716
Other liabilities.....	3,297,679	3,081,599
	-----	-----
Total liabilities.....	134,345,125	125,986,778
	-----	-----
Preferred shareholders' equity in subsidiary company.....	400,000	400,000
CAPITAL FUNDS:		
Common stock, \$2.50 par value: 1,000,000,000 shares authorized; shares issued 1997 -- 759,121,505; 1996 -- 506,084,172.....	1,897,804	1,265,210
Additional paid-in capital.....	116,386	127,415
Unrealized appreciation of investments, net of taxes.....	1,545,853	1,378,318
Cumulative translation adjustments, net of taxes.....	(897,210)	(493,218)
Retained earnings.....	22,089,248	20,420,881
Treasury stock, at cost; 1997 -- 57,628,230; 1996 -- 36,643,026 shares of common stock.....	(885,121)	(654,382)
	-----	-----
Total capital funds.....	23,866,960	22,044,224
	-----	-----
Total liabilities and capital funds.....	\$158,612,085	\$148,431,002
	=====	=====

See Accompanying Notes to Financial Statements.

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AMERICAN INTERNATIONAL GROUP, INC.

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

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
General insurance operations:				
Net premiums written.....	\$10,286,766	\$ 9,722,560	\$3,429,877	\$3,230,729
Change in unearned premium reserve.....	(989,410)	(958,655)	(340,613)	(194,142)
	-----	-----	-----	-----
Net premiums earned.....	9,297,356	8,763,905	3,089,264	3,036,587
Net investment income.....	1,366,275	1,244,475	463,324	420,718
Realized capital gains.....	106,787	50,697	28,188	5,644
	-----	-----	-----	-----
	10,770,418	10,059,077	3,580,776	3,462,949
	-----	-----	-----	-----
Losses and loss expenses incurred.....	7,042,283	6,665,489	2,300,428	2,271,984
Underwriting expenses.....	1,883,499	1,757,951	670,555	638,828
	-----	-----	-----	-----
	8,925,782	8,423,440	2,970,983	2,910,812
	-----	-----	-----	-----

Operating income.....	1,844,636	1,635,637	609,793	552,137
Life insurance operations:				
Premium income.....	7,329,233	6,508,465	2,480,443	2,213,481
Net investment income.....	2,147,593	2,046,296	742,483	718,352
Realized capital gains.....	12,789	22,600	6,540	16,750
	9,489,615	8,577,361	3,229,466	2,948,583
Death and other benefits.....	2,964,978	2,701,139	1,033,619	963,453
Increase in future policy benefits.....	3,521,732	3,209,509	1,153,378	1,053,878
Acquisition and insurance expenses.....	1,855,616	1,708,658	636,499	585,806
	8,342,326	7,619,306	2,823,496	2,603,137
Operating income.....	1,147,289	958,055	405,970	345,446
Financial services operating income.....	487,434	374,761	180,485	133,938
Equity in income of minority-owned insurance operations.....	84,593	74,322	26,804	26,273
Other realized capital gains (losses)...	(20,602)	(1,072)	(10,466)	649
Minority interest.....	(25,493)	(33,289)	(5,251)	(9,283)
Other income (deductions) -- net.....	(66,612)	(64,564)	(22,761)	(31,089)
Income before income taxes.....	3,451,245	2,943,850	1,184,574	1,018,071
Income taxes (benefits) -- Current.....	923,154	803,291	314,746	289,579
-- Deferred....	80,343	13,536	29,510	(2,945)
	1,003,497	816,827	344,256	286,634
Net income.....	\$ 2,447,748	\$ 2,127,023	\$ 840,318	\$ 731,437
Earnings per common share*.....	\$ 3.48	\$ 3.01	\$ 1.19	\$ 1.04
Cash dividends per common share*.....	\$ 0.208	\$ 0.180	\$ 0.075	\$ 0.067
Average shares outstanding*.....	702,574	707,273	701,385	704,155

\* Share information reflects a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997.

See Accompanying Notes to Financial Statements.

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AMERICAN INTERNATIONAL GROUP, INC.

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

	NINE MONTHS ENDED SEPTEMBER	
	30,	
	1997	1996
	-----	-----
Cash Flows From Operating Activities:		
Net income.....	\$ 2,447,748	\$ 2,127,023
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.....	3,504,897	4,336,394
Premiums and insurance balances receivable and payable -- net.....	(421,135)	256,037
Reinsurance assets.....	(784,565)	(996,834)
Deferred policy acquisition costs.....	(262,862)	(593,152)
Investment income due and accrued.....	(166,218)	(174,790)
Funds held under reinsurance treaties.....	(44,793)	74,041

Other policyholders' funds.....	55,921	136,406
Current and deferred income taxes -- net.....	517,215	98,945
Reserve for commissions, expenses and taxes.....	363,824	271,808
Other assets and liabilities -- net.....	199,004	(479,051)
Trading assets and liabilities -- net.....	(677,204)	278,527
Trading securities, at market value.....	18,396	503,992
Spot commodities, at market value.....	(266,448)	494,147
Net unrealized gain on interest rate and currency swaps, options and forward transactions.....	(1,215,474)	(156,276)
Securities purchased under agreements to resell.....	(422,806)	(1,199,375)
Securities sold under agreements to repurchase.....	(2,431,765)	649,284
Securities and spot commodities sold but not yet purchased, at market value.....	2,432,614	(519,301)
Realized capital gains.....	(98,974)	(72,225)
Equity in income of partially-owned companies and other invested assets.....	(116,209)	(119,331)
Depreciation expenses, principally flight equipment.....	650,186	603,882
Change in cumulative translation adjustments.....	(458,174)	(30,049)
Other -- net.....	(82,523)	4,957
	-----	-----
Total adjustments.....	292,907	3,368,036
	-----	-----
Net cash provided by operating activities.....	\$ 2,740,655	\$ 5,495,059
	-----	-----

See Accompanying Notes to Financial Statements.

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AMERICAN INTERNATIONAL GROUP, INC.

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

	NINE MONTHS ENDED SEPTEMBER	
	30,	
	1997	1996
	-----	-----
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed.....	\$ 993,917	\$ 1,346,988
Cost of bonds, at market sold.....	7,360,382	6,816,250
Cost of bonds, at market matured or redeemed.....	2,151,855	1,960,194
Cost of equity securities sold.....	1,773,257	2,136,119
Realized capital gains.....	98,974	72,225
Purchases of fixed maturities.....	(13,342,852)	(14,369,425)
Purchases of equity securities.....	(1,735,493)	(2,507,784)
Mortgage, policy and collateral loans granted.....	(1,662,318)	(2,706,970)
Repayments of mortgage, policy and collateral loans.....	1,341,579	490,414
Sales of securities available for sale.....	2,946,116	1,628,718
Maturities of securities available for sale.....	13,670,025	105,473
Purchases of securities available for sale.....	(14,602,931)	(3,489,696)
Sales of flight equipment.....	974,249	1,126,044
Purchases of flight equipment.....	(2,795,624)	(2,514,622)
Net additions to real estate and other fixed assets.....	(354,410)	(291,162)
Sales or distributions of other invested assets.....	5,653,523	871,082
Investments in other invested assets.....	(6,113,935)	(978,006)
Change in short-term investments.....	(162,251)	358,630
Investments in partially-owned companies.....	(28,654)	(36,668)
	-----	-----
Net cash used in investing activities.....	(3,834,591)	(9,982,196)
	-----	-----
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits.....	627,363	2,026,717
Change in deposits due to banks and other depositors.....	(36,867)	492,513
Change in commercial paper.....	(595,297)	915,212
Proceeds from notes, bonds, loans and mortgages payable.....	5,461,763	3,190,940
Repayments on notes, bonds, loans and mortgages payable.....	(5,403,645)	(1,927,525)
Liquidation of zero coupon notes payable.....	(12,235)	--
Proceeds from guaranteed investment agreements.....	3,407,703	3,041,772

Maturities of guaranteed investment agreements.....	(1,851,811)	(2,622,182)
Proceeds from subsidiary company preferred stock issued....	--	(98)
Proceeds from common stock issued.....	27,375	16,083
Cash dividends to shareholders.....	(146,787)	(127,161)
Acquisition of treasury stock.....	(274,448)	(474,034)
Other - net.....	5,305	16,533
	-----	-----
Net cash provided by financing activities.....	1,208,419	4,548,770
	-----	-----
Change in cash.....	114,483	61,633
Cash at beginning of period.....	58,740	88,371
	-----	-----
Cash at end of period.....	\$ 173,223	\$ 150,004
	=====	=====

See Accompanying Notes to Financial Statements.

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AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1997

- a) These statements are unaudited. In the opinion of management, all adjustments consisting of normal recurring accruals have been made for a fair presentation of the results shown.
- b) Earnings per share of American International Group, Inc. (AIG) are based on the weighted average number of common shares outstanding during the period, retroactively adjusted to reflect all stock splits.

Cash dividends per common share reflect the adjustment for a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997. The quarterly dividend rate per common share, commencing with the dividend paid September 19, 1997 is \$0.075.

- c) Supplemental cash flow information for the nine month periods ended September 30, 1997 and 1996 is as follows:

	1997	1996
	-----	-----
	(IN THOUSANDS)	
Income taxes paid.....	\$ 408,000	\$ 699,500
Interest paid.....	\$ 1,256,000	\$ 1,123,000

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

FASB 128 is effective for year end 1997. Earlier application is not permitted. The pro forma share and earnings per share amounts computed using FASB 128 and reflecting the common stock split in the form of a 50 percent common stock dividend paid July 25, 1997 for the first nine months ended September 30, 1997 and 1996 were as follows:

NINE MONTHS ENDED	
SEPTEMBER 30,	
-----	-----
1997	1996
-----	-----
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	

Average outstanding shares used in the computation of per share earnings:		
Common stock issued.....	759,125	759,126
Common stock in treasury.....	(56,551)	(51,853)
	-----	-----
Average outstanding shares -- basic.....	702,574	707,273
	-----	-----
Stock options (treasury stock method).....	3,556	2,946
Stock purchase plan.....	61	39
	-----	-----
Average outstanding shares -- diluted.....	706,191	710,258
	-----	-----
Net income applicable to common stock.....	\$2,447,748	\$2,127,023
	-----	-----
Net income per share:		
Basic.....	\$3.48	\$3.01
Diluted.....	\$3.47	\$3.00

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

f) For further information, refer to the Annual Report on Form 10-K of AIG for the year ended December 31, 1996.

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

OPERATIONAL REVIEW

General Insurance Operations

General insurance operations for the nine month periods ending September 30, 1997 and 1996 were as follows:

(in thousands)

	1997	1996
	-----	-----
Net premiums written:		
Domestic	\$ 6,944,434	\$6,386,214
Foreign	3,342,332	3,336,346
	-----	-----
Total	\$10,286,766	\$9,722,560
	-----	-----
Net premiums earned:		
Domestic	\$ 6,291,014	\$5,763,020
Foreign	3,006,342	3,000,885
	-----	-----
Total	\$ 9,297,356	\$8,763,905
	-----	-----
Adjusted underwriting profit:		
Domestic	\$ 3,085	\$ 27,154
Foreign	368,489	313,311
	-----	-----
Total	\$ 371,574	\$ 340,465

-----		
Net investment income:		
Domestic	\$ 1,095,993	\$ 988,362
Foreign	270,282	256,113
-----		
Total	\$ 1,366,275	\$1,244,475
-----		
Operating income before realized capital gains:		
Domestic	\$ 1,099,078	\$1,015,516
Foreign	638,771	569,424
-----		
Total	1,737,849	1,584,940
Realized capital gains	106,787	50,697
-----		
Operating income	\$ 1,844,636	\$1,635,637
-----		

During the first nine months of 1997, the net premiums written and net premiums earned in AIG's general insurance operations increased 5.8 percent and 6.1 percent, respectively, from those of 1996.

The growth in net premiums written in the first nine months of 1997 resulted from a combination of several factors. Domestically, AIG continued to achieve volume growth in some specialty markets, mortgage guaranty insurance and in personal lines. Foreign general insurance operations produced 32.5 percent of the general insurance net premiums written in the first nine months of 1997 and 34.3 percent in the same period of 1996.

In comparing the foreign exchange rates used to translate the results of AIG's foreign general operations during the first nine months of 1997 to those foreign exchange rates used to translate AIG's foreign general results during the same period of 1996, the U.S. dollar strengthened in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, when foreign net premiums written were translated into U.S. dollars for the purposes of consolidation, total general insurance net premiums written were approximately 1.8 percentage points less than they would have been if translated utilizing those exchange rates which prevailed during that same period of 1996.

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

The statutory general insurance ratios were as follows:

	1997	1996
-----		
Domestic:		
Loss Ratio	84.65	85.54
Expense Ratio	15.48	14.51
-----		
Combined Ratio	100.13	100.05
-----		
Foreign:		
Loss Ratio	57.11	57.83
Expense Ratio	30.67	31.10
-----		
Combined Ratio	87.78	88.93
-----		
Consolidated:		
Loss Ratio	75.75	76.06
Expense Ratio	20.42	20.20
-----		
Combined Ratio	96.17	96.26
-----		



Adjusted underwriting profit (operating income less net investment income and realized capital gains) represents statutory underwriting profit adjusted primarily for changes in deferred acquisition costs. The adjusted underwriting profits were \$371.6 million in the first nine months of 1997 and \$340.5 million in the same period of 1996.

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AIG's results reflect the net impact of incurred losses from catastrophes approximating \$16 million and \$78 million in 1997 and 1996, respectively. AIG's gross incurred losses from catastrophes approximated \$22 million and \$240 million in 1997 and 1996, respectively. If catastrophes were excluded from the losses incurred in each period, the pro forma consolidated statutory general insurance ratios would be as follows:

	1997	1996
Loss Ratio	75.57	75.17
Expense Ratio	20.42	20.20
Combined Ratio	95.99	95.37

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

General insurance net investment income in the first nine months of 1997 increased 9.8 percent when compared to the same period of 1996. The growth in net investment income in 1997 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 \$106.8 million in the first nine months of 1997 and \$50.7 million in 1996. 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 and trading fixed maturities as well as redemptions of fixed maturities.

General insurance operating income in the first nine months of 1997 increased 12.8 percent when compared to the same period of 1996. The contribution of general insurance operating income to income before income taxes was 53.4 percent in 1997 compared to 55.6 percent in 1996.

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

AIG's general reinsurance assets amounted to \$17.18 billion and resulted from AIG's reinsurance arrangements. Thus, a credit exposure existed at September 30, 1997, with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 1996, 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 97 percent of such balances were 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 September 30, 1997, these distribution percentages have not significantly changed.

AIG's provision for estimated unrecoverable reinsurance has not changed significantly from December 31, 1996, when AIG had allowances for unrecoverable reinsurance approximating \$125 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).

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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 into 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 September 30, 1997, the consolidated general reinsurance assets of \$17.18 billion include reinsurance recoverables for paid losses and loss expenses of \$2.01 billion and \$13.43 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 September 30, 1997 were representative of the ultimate losses recoverable. In the future, as the ceded reserves continue to develop to ultimate amounts, the ultimate loss recoverable may be greater or less than the reserves currently ceded.

At September 30, 1997, general insurance reserves for losses and loss expenses (loss reserves) amounted to \$34.47 billion, an increase of \$1.04 billion or 3.1 percent over the prior year end and represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses and minor amounts of discounting related to certain workers' compensation claims. General insurance net loss reserves increased \$633.2 million or 3.1 percent to \$21.04 billion and represent loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at September 30, 1997. In the future, if the general insurance net loss reserves develop deficiently, such deficiency would have an adverse impact on such future results of operations.

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

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

would be net losses paid. A relatively high proportion of net losses would therefore be IBNR.

A variety of actuarial methods and assumptions are normally employed to estimate net losses for long tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long tail casualty lines, net loss trend factors approximated eight 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

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reasonableness using the most appropriate loss trend factors for each class of business. In the evaluation of AIG's net loss reserves, loss trend factors vary slightly, depending on the particular class and nature of the business involved. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience.

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

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

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

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

In the interim, AIG and other industry members have and will continue to litigate the broadening judicial interpretation of the policy coverage and the liability issues. At the current time, it is not possible to determine the future development of asbestos and environmental claims. Such development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by changes in Superfund and waste dump site coverage issues. Additional liabilities could emerge for amounts in excess of the current reserves held. Although this emergence cannot now be reasonably estimated, it could have a material adverse

impact on AIG's future operating results. The reserves carried for these claims at September 30, 1997 are believed to be adequate as these reserves are based on the known facts and current law. Furthermore, as AIG's net exposure retained relative to the gross exposure written was lower in 1984 and prior years, the potential impact of these claims is much smaller on the net loss reserves than on the gross loss reserves. (See the previous discussion on reinsurance collectibility herein.)

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

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and

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environmental claims separately and combined at September 30, 1997 and 1996 was as follows:

(in millions)

	1997		1996	
	GROSS	NET	Gross	Net
<b>Asbestos:</b>				
Reserve for losses and loss expenses at beginning of period	\$ 875.9	\$172.3	\$ 744.8	\$127.9
Losses and loss expenses incurred	219.6	61.5	144.7	77.6
Losses and loss expenses paid	(244.7)	(41.7)	(198.3)	(45.6)
Reserve for losses and loss expenses at end of period	\$ 850.8	\$192.1	\$ 691.2	\$159.9
<b>Environmental:</b>				
Reserve for losses and loss expenses at beginning of period	\$1,427.4	\$570.6	\$1,197.9	\$379.3
Losses and loss expenses incurred	173.8	86.3	197.9	125.8
Losses and loss expenses paid	(117.6)	(40.0)	(114.4)	(37.7)
Reserve for losses and loss expenses at end of period	\$1,483.6	\$616.9	\$1,281.4	\$467.4
<b>Combined:</b>				
Reserve for losses and loss expenses at beginning of period	\$2,303.3	\$742.9	\$1,942.7	\$507.2
Losses and loss expenses incurred	393.4	147.8	342.6	203.4
Losses and loss expenses paid	(362.3)	(81.7)	(312.7)	(83.3)
Reserve for losses and loss expenses at end of period	\$2,334.4	\$809.0	\$1,972.6	\$627.3

The gross and net IBNR included in the aforementioned reserve for losses and loss expenses at September 30, 1997 and 1996 were estimated as follows:

(in thousands)

	1997		1996	
	GROSS	NET	Gross	Net
Combined	\$1,067,550	\$432,052	\$861,500	\$306,200

A summary of asbestos and environmental claims count activity for the nine month periods ended September 30, 1997 and 1996 were as follows:

	1997			1996		
	ASBESTOS	ENVIRONMENTAL	COMBINED	Asbestos	Environmental	Combined
Claims at beginning of period	5,668	17,395	23,063	5,244	17,858	23,102
Claims during period:						
Opened	865	2,716	3,581	740	1,993	2,733
Settled	(105)	(315)	(420)	(94)	(395)	(489)
Dismissed or otherwise resolved	(303)	(1,803)	(2,106)	(555)	(2,485)	(3,040)
Claims at end of period	6,125	17,993	24,118	5,335	16,971	22,306

The average cost per claim settled, dismissed or otherwise resolved for the nine month periods ended September 30, 1997 and 1996 was as follows:

	1997		1996	
	GROSS	NET	Gross	Net
Asbestos	\$599,800	\$102,200	\$305,500	\$70,300
Environmental	55,500	18,900	39,700	13,100
Combined	143,400	32,300	88,600	23,600

An insurance rating agency has developed a survival ratio to measure the number of years it would take a company to exhaust both its asbestos and environmental reserves for losses and loss expenses based on that company's current level of asbestos and environmental claims payments. The higher the ratio, the more years the reserves for losses and loss expenses cover these claims payments. These ratios are computed based on the respective ending reserves for losses and loss ex-

penses over the respective claims settlements during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted, however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments thereof and the resultant ratio.

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

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

AIG's survival ratios for involuntary asbestos and environmental claims, separately and combined, were based upon a three year average payment. These ratios at September 30, 1997 and 1996 were as follows:

	1997		1996	
	GROSS	NET	Gross	Net
Involuntary survival ratios:				
Asbestos	3.6	4.2	4.2	4.2
Environmental	15.8	19.1	16.1	15.7
Combined	7.7	11.0	8.7	9.8

AIG's operations are negatively impacted under guarantee fund assessment laws which exist in most states. As a result of operating in a state which has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies which operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments, net of credits for 1996 was \$18.8 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 1997.

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

#### Life Insurance Operations

Life insurance operations for the nine month periods ending September 30, 1997 and 1996 were as follows:

(in thousands)

	1997		1996	
Premium income:				
Domestic	\$ 403,507		\$ 383,075	
Foreign	6,925,726		6,125,390	
Total	\$ 7,329,233		\$ 6,508,465	
Net investment income:				
Domestic	\$ 620,219		\$ 762,058	

Foreign	1,527,374	1,284,238
-----		
Total	\$ 2,147,593	\$ 2,046,296
-----		
Operating income before realized capital gains:		
Domestic	\$ 93,337	\$ 76,341
Foreign	1,041,163	859,114
-----		
Total	1,134,500	935,455
Realized capital gains	12,789	22,600
-----		
Operating income	\$ 1,147,289	\$ 958,055
-----		
Life insurance in-force:*		
Domestic	\$ 64,560,685	\$ 60,419,342
Foreign	379,686,844	361,563,791
-----		
Total	\$ 444,247,529	\$ 421,983,133
-----		

\* Amounts presented were as at September 30, 1997 and December 31, 1996, respectively.

AIG's life insurance operations, demonstrating the strength of its franchise, continued to show growth primarily as a result of overseas operations, particularly in Asia. AIG's life premium income during the first nine months of 1997 represented a 12.6 percent increase from the same period in 1996. Foreign life operations produced 94.5 percent and 94.1 percent of the life premium income in 1997 and 1996, respectively.

As previously discussed, the U.S. dollar strengthened in value in relation to most major

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foreign currencies in which AIG transacts business. Accordingly, for the first nine months of 1997, when foreign life premium income was translated into U.S. dollars for purposes of consolidation, total life premium income was approximately 5.2 percentage points less than it would have been if translated utilizing exchange rates prevailing in the same period of 1996.

Life insurance net investment income increased 5.0 percent during the first nine months of 1997. The growth in net investment income was primarily attributable to foreign new cash flow for investment. The new cash flow was generated from life insurance operations and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

The decline in domestic net investment income resulted from the redemption of corporate owned life insurance policies beginning in 1996 and continuing into 1997. Such redemptions had no significant effect on domestic operating income.

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

Life insurance realized capital gains were \$12.8 million in 1997 and \$22.6 million in 1996. These realized gains resulted from the ongoing management of the life insurance investment portfolios within the overall objectives of the life insurance operations and arose primarily from the disposition of equity securities and available for sale fixed maturities as well as redemptions of fixed maturities.

Life insurance operating income during the first nine months of 1997 increased 19.8 percent to \$1.15 billion. Excluding realized capital gains from life insurance operating income, the percent increase would be 21.3 percent during the first nine months of 1997. The contribution of life insurance operating income to income before income taxes amounted to 33.2 percent during

the first nine months of 1997 compared to 32.5 percent in the same period of 1996.

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

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately one million dollars of coverage by using yearly renewable term reinsurance. The life insurance operations have not entered into assumption reinsurance transactions or surplus relief transactions during the two year period ended September 30, 1997.

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

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

The asset-liability relationship is appropriately managed in AIG's foreign operations, as it has been throughout AIG's history, even though certain territories lack qualified long-term investments or there are investment restrictions imposed by the local regulatory authorities. For example, in Japan and several Southeast Asia territories, the duration of the investments is often for a shorter period than the effective maturity of such policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the investments may be at a yield below that of the interest required for the accretion of the policy liabilities. At December 31, 1996, the average duration of the investment portfolio in Japan was 5.9 years, while the related policy liabilities were estimated to be 12.3 years. These durations have not changed significantly during 1997. To maintain an adequate yield to match the

interest required over the duration of the liabilities, constant management focus is required to reinvest the proceeds of the maturing securities without sacrificing investment quality. To the extent permitted under local regulation, AIG may invest in qualified longer-term securities outside Japan to achieve a closer matching in both duration and the required yield. AIG is able to manage any asset-liability duration difference through maintenance of sufficient global liquidity and to support any operational shortfall through its international financial network. Domestically, active monitoring assures appropriate asset-liability matching as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

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

#### Financial Services Operations

Financial services operations for the nine month periods ending September 30, 1997 and 1996 were as follows:

(in thousands)

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Revenues:

International Lease Finance Corp.	\$1,369,091	\$1,148,310
AIG Financial Products Corp.*	294,513	286,995
AIG Trading Group Inc.*	365,052	209,407
Other	299,020	230,412
-----		
Total	\$2,327,676	\$1,875,124
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Operating income:

International Lease Finance Corp.	\$ 287,151	\$ 226,050
AIG Financial Products Corp.	151,119	129,824
AIG Trading Group Inc.	83,431	53,903
Other, including intercompany adjustments	(34,267)	(35,016)
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Total	\$ 487,434	\$ 374,761
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\*Represents net trading revenues.

Financial services operating income increased 30.1 percent in the first nine months of 1997 over 1996.

International Lease Finance Corporation (ILFC) generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions. Revenues in the first nine months of 1997 increased 19.2 percent from 1996. The revenue increase resulted primarily from the growth both in the size and relative cost of the fleet. During the first nine months of 1997, operating income increased 27.0 percent from 1996. The composite borrowing rates during the first nine months of 1997 and 1996 were 6.34 percent and 6.28 percent, respectively. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

ILFC is exposed to loss through non-performance of aircraft lessees, through owning aircraft which it would be unable to lease or re-lease at acceptable rates or sell 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 September 30, 1997, ILFC's aircraft subject to operating leases totaled 325. In addition, two other aircraft were not leased. At September 30, 1997, approximately 80 percent of the fleet was leased to foreign airlines. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

AIG Financial Products Corp. and its subsidiaries (AIGFP) participate in the derivatives dealer market conducting, primarily as principal, an interest rate, currency and equity 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 for speculative transactions. Revenues in the first nine months of 1997 increased 2.6 percent from the same period of 1996. During the first nine months of 1997, operating income increased 16.4 percent from the same period of 1996. As AIGFP is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein.)

AIG Trading Group Inc. and its subsidiaries (AIGTG) derive a substantial portion of their revenues from market making and trading activities, as principals, in foreign exchange, interest rates, precious and base metals and natural gas and other

energy products. Revenues in the first nine months of 1997 increased 74.3 percent from the same period of 1996. During the first nine months of 1997,

operating income increased 54.8 percent from the same period of 1996. A substantial portion of AIGTG's improvement during the first nine months of 1997 over the same period of 1996 was currency trading activity in volatile foreign exchange markets particularly during the second quarter of 1997. On August 6, 1997, AIGTG entered into an agreement to sell its energy operations. The transaction is expected to close prior to December 31, 1997. (See also the discussion under "Recent Developments" herein.) It is not anticipated that the sale of these operations will have any significant impact on AIG. As AIGTG is a transaction-oriented operation, current and past revenues and operating results may not provide a basis of predicting future performance. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein.)

Financial services operating income represented 14.1 percent of AIG's income before income taxes in the first nine months of 1997. This compares to 12.7 percent in the same period of 1996.

#### Other Operations

In the first nine months of 1997, AIG's equity in income of minority-owned insurance operations was \$84.6 million compared to \$74.3 million in the same period of 1996. In the first nine months of 1997 and 1996, the equity interest in insurance companies represented 2.5 percent of income before income taxes in each period.

Other realized capital losses amounted to \$20.6 million and \$1.1 million in the first nine months of 1997 and 1996, respectively.

Minority interest represents minority shareholders' equity in income of certain consolidated subsidiaries. In the first nine months of 1997, minority interest amounted to \$25.5 million. In the first nine months of 1996, minority interest amounted to \$33.3 million.

Other income (deductions)--net includes AIG's equity in certain minor majority-owned subsidiaries and certain partially-owned companies, realized foreign exchange transaction gains and losses in substantially all currencies and unrealized gains and losses in hyperinflationary currencies, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. In the first nine months of 1997, net deductions amounted to \$66.6 million. In the same period of 1996, net deductions amounted to \$64.6 million.

Income before income taxes amounted to \$3.45 billion in the first nine months of 1997, and \$2.94 billion in the same period of 1996.

In the first nine months of 1997, AIG recorded a provision for income taxes of \$1.00 billion compared to the provision of \$816.8 million in the same period of 1996. These provisions represent effective tax rates of 29.1 percent in the first nine months of 1997, and 27.7 percent in the same period of 1996. The increase in the effective tax rate in 1997 over the prior period is primarily due to the increase in the domestic general operating income relative to income before income taxes.

Net income amounted to \$2.45 billion in the first nine months of 1997 and \$2.13 billion in the same period of 1996. The increases in net income over the periods resulted from those factors described above.

#### CAPITAL RESOURCES

At September 30, 1997, AIG had total capital funds of \$23.87 billion and total borrowings of \$24.53 billion. At that date, \$21.22 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.

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Total borrowings at September 30, 1997 and December 31, 1996 were as follows:

(in thousands)

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1997

1996

GIAs -- AIGFP	\$ 7,279,120	\$ 5,723,228
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Commercial Paper:		
Funding	232,492	1,018,510
ILFC(a)	2,789,568	2,739,388
AICCO	880,619	740,078
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Total	3,902,679	4,497,976
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Medium Term Notes:		
ILFC(a)	3,015,465	2,551,485
AIG	240,000	140,000
-----		
Total	3,255,465	2,691,485
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Notes and Bonds Payable:		
ILFC(a)	4,050,000	3,500,000
AIGFP	4,114,253	5,243,042
AIGTG	--	10,442
AIG: Lire bonds	159,067	159,067
Zero coupon notes	88,724	81,761
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Total	8,412,044	8,994,312
-----		
Loans and Mortgages Payable:		
ILFC(a) (b)	933,320	1,007,836
AIG	751,598	605,677
-----		
Total	1,684,918	1,613,513
-----		
Total Borrowings	24,534,226	23,520,514
-----		
Borrowings not guaranteed by		
AIG	10,788,353	9,798,709
Matched GIA borrowings	7,279,120	5,723,228
Matched notes and bonds payable -- AIGFP	3,147,785	4,576,900
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	21,215,258	20,098,837
-----		
Remaining borrowings of AIG	\$ 3,318,968	\$ 3,421,677
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(a)AIG does not guarantee or support these borrowings.

(b)Primarily capital lease obligations.

During the first nine months of 1997, AIGFP decreased the aggregate principal amount outstanding of its notes and bonds payable to \$4.11 billion, a net decrease of \$1.13 billion and increased its net GIA borrowings by \$1.56 billion. AIGFP uses the proceeds from the issuance of notes and bonds to invest in a segregated portfolio of securities available for sale. Funds received from GIA borrowings are invested in a diversified portfolio of securities and derivative transactions. (See also the discussions under "Operational Review", "Liquidity" and "Derivatives" herein.)

AIG Funding, Inc. (Funding), through the issuance of commercial paper, fulfills the short-term cash requirements of AIG and its subsidiaries. Funding intends to continue to meet AIG's funding requirements through the issuance of commercial paper guaranteed by AIG. This issuance of Funding's commercial paper is subject to the approval of AIG's Board of Directors. ILFC and A.I. Credit Corp. (AICCO) issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's or ILFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. From time to time, AIGFP may issue commercial paper, which AIG guarantees, to fund its operations. At September 30, 1997, AIGFP had no commercial paper outstanding. (See also the discussion under "Derivatives" herein.)

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

administered by Funding. There are currently no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding as of September 30, 1997.

ILFC increased the aggregate principal amount outstanding of its medium term and term notes to \$7.07 billion at September 30, 1997, a net increase of \$1.01 billion, and recorded a net decline in its capital lease obligations of \$62.6 million and a net increase in its commercial paper of \$50.2 million at that date. At October 31, 1997, ILFC had \$610 million aggregate principal amount of debt securities registered for issuance from time to time. The cash used to purchase flight equipment, including progress payments during the construction phase, is primarily derived 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 of prior debt. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During the first nine months of 1997, AIG issued \$100 million principal amount of Medium Term Notes, Series E (2 1/4% Cash Exchangeable Equity-Linked Notes Due July 30, 2004) and no previously issued notes matured. At September 30, 1997, AIG had \$547 million aggregate principal amount of debt securities registered for issuance from time to time.

AIG's capital funds have increased \$1.82 billion in the first nine months of 1997. Unrealized appreciation of investments, net of taxes increased \$167.5 million, primarily as a result of the effect of declining interest rates on the market value of the bonds available for sale portfolio. During the first

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nine months of 1997, the cumulative translation adjustment loss, net of taxes, increased \$404.0 million and retained earnings increased \$1.67 billion, resulting from net income less dividends.

During the period from January 1, 1997 through October 31, 1997, AIG repurchased in the open market 4.59 million shares of its common stock at a cost of \$387.1 million. AIG intends to continue to buy its common shares in the open market from time to time and to satisfy its obligations under various employee benefit plans through such purchases.

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 September 30, 1997, there were no significant statutory or regulatory issues which would impair AIG's financial condition, results of operations or liquidity. (See also the discussion under "Liquidity" herein.)

In 1989, the National Association of Insurance Commissioners (NAIC) adopted the "NAIC Solvency Policing Agenda for 1990". Included in this agenda was the development of Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations.

At December 31, 1996, the adjusted capital of each of AIG's domestic general companies and of each of AIG's domestic life companies exceeded each of their RBC standards by considerable margins. There has been no significant change through September 30, 1997.

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

To AIG's knowledge, no AIG company is on any regulatory or similar "watch list".

LIQUIDITY

At September 30, 1997, AIG's consolidated invested assets included approximately \$2.34 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first nine months of 1997 amounted to approximately \$2.74 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance pre-tax operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated over \$5 billion in pre-tax cash flow during the first nine months of 1997. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately \$3.5 billion in investment income cash flow during the first nine months of 1997. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains.

The combined insurance pre-tax operating cash flow coupled with the cash and short-term investments of \$1.86 billion provided the insurance operations with a significant amount of liquidity during the first nine months of 1997. This liquidity is available to purchase high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy loans and collateral loans. With this liquidity coupled with proceeds of approximately \$12.3 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities, AIG purchased approximately \$15.1 billion of fixed income securities and marketable equity securities during the first nine months of 1997.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued and real estate, at September 30, 1997 and December 31, 1996:

(dollars in thousands)

	SEPTEMBER 30, 1997		December 31, 1996	
	INVESTED ASSETS	PERCENT OF TOTAL	Invested Assets	Percent of Total
General insurance	\$ 30,896,047	26.6%	\$ 28,786,140	26.5%
Life insurance	40,561,308	34.9	38,491,870	35.4
Financial services	44,048,373	37.9	40,938,871	37.7
Other	688,112	0.6	401,248	0.4
Total	\$116,193,840	100.0%	\$108,618,129	100.0%

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 September 30, 1997 and December 31, 1996:

(dollars in thousands)

SEPTEMBER 30, 1997	GENERAL	LIFE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION	
					DOMESTIC	FOREIGN

Fixed Maturities:						
Available for sale, at market value(a)	\$11,029,897	\$27,535,984	\$38,565,881	54.0%	36.4%	63.6%
Held to maturity, at amortized cost(b)	12,881,185	--	12,881,185	18.0	100.0	--
Equity securities, at market value(c)	3,377,536	2,550,767	5,928,303	8.3	37.1	62.9
Mortgage loans on real estate, policy and collateral loans	50,727	6,414,205	6,464,932	9.0	42.3	57.7
Short-term investments, including time deposits, and cash	579,002	1,279,301	1,858,303	2.6	13.3	86.7
Real estate	401,054	901,296	1,302,350	1.8	17.6	82.4
Investment income due and accrued	535,085	815,027	1,350,112	1.9	44.4	55.6
Other invested assets	2,041,561	1,064,728	3,106,289	4.4	57.9	42.1
Total	\$30,896,047	\$40,561,308	\$71,457,355	100.0%	48.6%	51.4%

(a)Includes \$628,485 of bonds trading securities, at market value.

(b)Includes \$239,663 of preferred stock, at amortized cost.

(c)Includes \$93,570 of preferred stock, at market value.

(dollars in thousands)

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

(a)Includes \$364,069 of bonds trading securities, at market value.

(b)Includes \$477,247 of preferred stock, at amortized cost.

(c)Includes \$46,732 of preferred stock, at market value.

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.

At September 30, 1997, approximately 52.3 percent of the fixed maturity investments were domestic securities. Approximately 41 percent of such domestic securities were rated AAA. Approximately seven 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 September 30, 1997, approximately 31 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 seven percent were below investment grade or not rated at that date.

Although AIG's fixed income insurance portfolios contain only minor amounts of securities below investment grade, any fixed income security may be subject to downgrade for a variety of reasons subsequent to any balance sheet date. There have been no significant downgrades as at November 1, 1997.

At September 30, 1997, approximately five percent of the fixed maturities portfolio was Collateralized Mortgage Obligations (CMOs), including minor amounts with respect to Commercial Mortgage Backed Securities. All of the CMOs were investment grade and approximately 63 percent of the CMOs were backed by various U.S. government agencies. Thus, credit risk was minimal. CMOs are exposed to interest rate risk as the duration and ultimate realized yield would

be affected by the accelerated prepayments of the underlying mortgages. There were no interest only or principal only CMOs.

When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from currency risk and interest rate risk, AIG and its insurance subsidiaries enter into derivative transactions as end users. To date, such activities have been minor. (See also the discussion under "Derivatives" herein.)

Mortgage loans on real estate, policy and collateral loans comprised 9.0 percent of AIG's insurance invested assets at September 30, 1997. AIG's insurance operations' holdings of real estate mortgages amounted to \$2.58 billion of which 34.1 percent was domestic. At September 30, 1997, no domestic mortgages and only a nominal amount of foreign mortgages were in default. At September 30, 1997, AIG's insurance holdings of collateral loans amounted to \$843.7 million, all of which were foreign. It is AIG's practice to maintain a maximum loan to value ratio of 75 percent at loan origination. AIG's policy loans increased from \$3.00 billion at December 31, 1996 to \$3.04 billion at September 30, 1997.

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.

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.

The following table is a summary of the composition of AIG's financial services invested assets at September 30, 1997 and December 31, 1996. (See also the discussions under "Operational Review," "Capital Resources" and "Derivatives" herein.)

(dollars in thousands)

	1997		1996	
	INVESTED ASSETS	PERCENT OF TOTAL	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	\$15,199,781	34.5%	\$13,808,660	33.7%
Unrealized gain on interest rate and currency swaps, options and forward transactions	7,853,575	17.8	6,906,012	16.9
Securities available for sale, at market value	7,742,935	17.6	9,785,909	23.9
Trading securities, at market value	2,339,416	5.3	2,357,812	5.7
Securities purchased under agreements to resell, at contract value	2,065,397	4.7	1,642,591	4.0
Trading assets	6,044,710	13.7	3,793,433	9.3
Spot commodities, at market value	471,153	1.1	204,705	0.5
Other, including short-term investments	2,331,406	5.3	2,439,749	6.0
<b>Total</b>	<b>\$44,048,373</b>	<b>100.0%</b>	<b>\$40,938,871</b>	<b>100.0%</b>

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC's debt financing. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover of prior debt. During the first nine months of 1997, ILFC acquired flight equipment costing \$2.80 billion.

AIGFP's derivative transactions are carried at market value or at estimated

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

Securities available for sale, at market value and securities purchased under agreements to resell are purchased with the proceeds of AIGFP's GIA financings and other long and short-term borrowings. The proceeds from the disposal of securities available for sale and securities purchased under agreements to resell have been used to fund the maturing GIAs or other AIGFP financing. (See also the discussion under "Capital Resources" herein.)

Securities available for sale is mainly a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At September 30, 1997, the average credit rating of this portfolio was AA or the equivalent thereto as determined through rating agencies or internal review. At that date, AIGFP has also entered into credit derivative transactions to hedge its credit risk associated with \$279 million of these securities. There were no securities deemed below investment grade. There have been no significant downgrades through November 1, 1997. 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, precious and base metals and natural gas and other energy products. 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, exchange rates and commodity prices. AIGTG supports its trading activities largely through trading

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liabilities, unrealized losses on swaps, short-term borrowings and spot commodities sold but not yet purchased. (See also the discussions under "Capital Resources" and "Derivatives" herein.)

#### DERIVATIVES

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

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

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

An option contract generally provides the option purchaser with the right but not the obligation to buy or sell during a period of time or at a specified



date the underlying instrument at a set price. The option writer is obligated to sell or buy the underlying item if the option purchaser chooses to exercise his right. The option writer receives a nonrefundable fee or premium paid by the option purchaser.

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

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

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 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 principally arises from the uncertainty that future earnings are exposed to potential changes in volatility, interest rates, foreign 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 mar-

ket 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 value at risk and scenario analysis are used. Additionally, this department verifies that specific market risks of each of certain subsidiaries are managed and hedged by that subsidiary.

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

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

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 wishes 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 book's 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 determines whether 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.

The gross unrealized gains and gross unrealized losses of AIGFP and AIGTG included in the financial services assets and liabilities at September 30, 1997 were as follows:

(in thousands)

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GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	BALANCE SHEET AMOUNT
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Securities available for sale, at market value	\$ 225,070	\$ 216,384	\$7,742,935
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions (a) (b)	7,853,575	5,146,522	--
Trading securities, at market value	--	--	2,339,416
Trading assets	7,714,982	5,293,914	6,044,710
Spot commodities, at market value	--	48,492	471,153
Trading liabilities	--	3,107,014	4,887,581
Securities and spot commodities sold but not yet purchased, at market value	186,771	--	4,001,156
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(a) These amounts are also presented as the respective balance sheet amounts.

(b) At September 30, 1997, AIGTG's net replacement values with respect to interest rate and currency swaps were \$412.9 million.

The interest rate risk on securities available for sale, at market, is managed by taking offsetting positions on a security by security basis, thereby offsetting a significant portion of the unrealized appreciation or depreciation. At September 30, 1997, the unrealized gains and losses remaining after benefit of the offsets were \$12.7 million and \$4.0 million, respectively.

AIGFP carries its derivatives at market or estimated fair value, whichever is appropriate. Because of limited liquidity of certain of these instruments, the recorded estimated fair values of these derivatives may be different than the values that might be realized if AIGFP were to sell or close out the transactions prior to maturity. (See also the discussions under "Operational Review: Financial Services" and "Liquidity" herein.)

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.

AIGTG conducts, as principal, market making and trading activities in foreign exchange, interest rates, precious and base metals and natural gas and other energy products. AIGTG owns inventories in the commodities in which it trades. These inventories are carried at market and may be substantially hedged. AIGTG uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movements in interest rates, exchange rates and commodity prices. (See also the discussions under "Operational Review: Financial Services" and "Liquidity" herein.)

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

AIGFP and AIGTG determine the credit quality of each of their counterparties taking into account credit ratings assigned by recognized

statistical rating organizations. If it is determined that a counterparty requires credit enhancement, then one or more enhancement techniques will be used. Examples of such enhancement techniques include letters of credit, guarantees, collateral credit triggers and credit derivatives and margin agreements.

A significant majority of AIGFP's transactions are contracted and documented under ISDA Master Agreements that provide for legally enforceable set-off and close out netting of exposures in the

event of default. Under such agreements, in connection with the early termination of a transaction, AIGFP is permitted to set-off its receivables from a counterparty against AIGFP's payables to that same counterparty arising out of all included transactions. Excluding regulated exchange transactions, AIGTG, whenever possible, enters into netting agreements with its counterparties which are similar in effect to those discussed above.

The following tables provide the notional and contractual amounts of AIGFP's and AIGTG's derivatives portfolio at September 30, 1997 and December 31, 1996.

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

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

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

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at September 30, 1997 and December 31, 1996:

(in thousands)

	REMAINING LIFE				TOTAL 1997	TOTAL 1996
	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS		
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	\$58,300,600	\$79,481,400	\$45,723,800	\$10,364,400	\$193,870,200	\$165,771,800
Currency swaps	12,581,400	18,735,800	11,149,500	4,222,600	46,689,300	39,182,900
Equity/commodity swaps	20,900	16,600	29,200	50,000	116,700	103,600
Swaptions	630,200	1,444,500	1,556,000	630,900	4,261,600	5,617,700
Total	\$71,533,100	\$99,678,300	\$58,458,500	\$15,267,900	\$244,937,800	\$210,676,000
Futures and forward contracts:						
Exchange traded futures contracts						
contractual amount	\$ 3,498,200	--	--	--	\$ 3,498,200	\$ 6,867,300
Over the counter forward contracts						
contractual amount	\$ 6,830,800	--	--	--	\$ 6,830,800	\$ 5,952,200

AIGFP determines counterparty credit quality by reference to ratings from independent rating agencies or internal analysis. At September 30, 1997 and

December 31, 1996, the counterparty credit quality by derivative product with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 1997	Total 1996
Counterparty credit quality:				
AAA	\$1,677,247	\$ --	\$1,677,247	\$1,732,315
AA	1,995,479	16,442	2,011,921	2,021,878
A	2,800,589	415	2,801,004	1,461,063
BBB	891,167	456	891,623	1,150,420
Below investment grade	38,308	--	38,308	26,293
Total	\$7,402,790	\$17,313	\$7,420,103	\$6,391,969

At September 30, 1997 and December 31, 1996, the counterparty breakdown by industry with respect to the net replacement value of AIGFP's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE			
	SWAPS AND SWAPTIONS	FUTURES AND FORWARD CONTRACTS	TOTAL 1997	Total 1996
Non-U.S. banks	\$2,364,426	\$12,806	\$2,377,232	\$2,330,481
Insured municipalities	665,002	--	665,002	656,373
U.S. industrials	984,972	--	984,972	894,942
Governmental	464,882	4,073	468,955	894,284
Non-U.S. financial service companies	51,472	--	51,472	34,383
Non-U.S. industrials	934,356	--	934,356	497,839
Special purpose	770,577	--	770,577	121,137
U.S. banks	416,235	--	416,235	251,641
U.S. financial service companies	594,471	434	594,905	534,965
Supranationals	156,397	--	156,397	175,924
Total	\$7,402,790	\$17,313	\$7,420,103	\$6,391,969

The following tables provide the contractual and notional amounts of AIGTG's derivatives portfolio at September 30, 1997 and December 31, 1996. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the September 30, 1997 balances based upon the expected timing of the future cash flows.

The gross replacement values presented represent the sum of the estimated positive fair values of all of AIGTG's derivatives contracts at September 30, 1997 and December 31, 1996. These values do not represent the credit risk to AIGTG.

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

The following tables present AIGTG's derivatives portfolio and the associated credit exposure, if applicable, by maturity and type of derivative at September 30, 1997 and December 31, 1996:

(in thousands)

REMAINING LIFE

	ONE YEAR	TWO THROUGH FIVE YEARS	SIX THROUGH TEN YEARS	AFTER TEN YEARS	TOTAL 1997	TOTAL 1996
Contractual amount of futures, forwards and options:						
Exchange traded futures and options	\$ 17,595,453	\$3,038,726	\$ 58,135	\$ --	\$ 20,692,314	\$ 17,004,692
Forwards	\$253,535,640	\$12,550,473	\$1,819,409	\$ 28,507	\$267,934,029	\$216,775,766
Over the counter purchased options						
	\$ 42,957,810	\$9,242,723	\$1,127,956	\$ --	\$ 53,328,489	\$ 27,377,217
Over the counter sold options (a)						
	\$ 45,552,100	\$7,923,228	\$ 806,072	\$ --	\$ 54,281,400	\$ 31,049,529
Notional amount:						
Interest rate swaps and forward rate agreements	\$ 59,130,282	\$16,327,763	\$1,557,731	\$ --	\$ 77,015,776	\$ 66,306,480
Currency swaps	1,205,250	4,582,257	924,383	300,661	7,012,551	5,853,194
<b>Total</b>	<b>\$ 60,335,532</b>	<b>\$20,910,020</b>	<b>\$2,482,114</b>	<b>\$300,661</b>	<b>\$ 84,028,327</b>	<b>\$ 72,159,674</b>
Credit Exposure:						
Futures, forwards and purchased options contracts and interest rate and currency swaps:						
Gross replacement value	\$ 8,213,460	\$1,339,342	\$ 285,857	\$ 15,453	\$ 9,854,112	\$ 7,489,766
Master netting arrangements	(4,995,209)	(501,405)	(112,853)	(12,819)	(5,622,286)	(3,872,291)
Collateral	(67,721)	(48,619)	(12,696)	--	(129,036)	(149,347)
<b>Net replacement value (b)</b>	<b>\$ 3,150,530</b>	<b>\$ 789,318</b>	<b>\$ 160,308</b>	<b>\$ 2,634</b>	<b>\$ 4,102,790</b>	<b>\$ 3,468,128</b>

(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 exposures.

(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 September 30, 1997 and December 31, 1996, the counterparty credit quality and counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE	
	1997	1996
Counterparty credit quality:		
AAA	\$ 441,517	\$ 447,236
AA	1,317,752	1,075,713
A	1,408,542	1,133,332
BBB	457,897	518,485
Below investment grade	141,152	115,810
Not externally rated, including exchange traded futures and options*	335,930	177,552
<b>Total</b>	<b>\$4,102,790</b>	<b>\$3,468,128</b>
Counterparty breakdown by industry:		
Non-U.S. banks	\$1,425,199	\$1,269,399
U.S. industrials	644,135	761,634
Governmental	105,174	121,278
Non-U.S. financial service companies	373,897	186,476
Non-U.S. industrials	198,896	192,669
U.S. banks	502,566	309,154
U.S. financial service companies	516,993	449,966
Exchanges*	335,930	177,552
<b>Total</b>	<b>\$4,102,790</b>	<b>\$3,468,128</b>

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

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

As an end user, AIG and its subsidiaries, including its insurance subsidiaries, use derivatives to aid in managing AIG's foreign exchange translation exposure. Derivatives may also be used to minimize certain exposures with respect to AIG's debt financing and insurance investment operations; to date, such activities have been minor.

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

Management of AIG's liquidity profile is designed to ensure that even under adverse conditions AIG is able to raise funds at the most economical cost to fund maturing liabilities and capital and liquidity requirements of its subsidiaries. Sources of funds considered in meeting these objectives 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, not yet purchased, issuance of equity, and cash provided from operations. AIG's strong capital position is integral to managing liquidity, as it enables AIG to raise funds in diverse markets worldwide. (See also the discussions under "Capital Resources" and "Liquidity" herein.)

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.

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.

#### ACCOUNTING STANDARDS

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

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

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

AIG is reviewing both FASB 130 and FASB 131. AIG has not determined if it will adopt either or both prior to the aforementioned effective dates.

RECENT DEVELOPMENTS

In August 1997, AIG entered into an agreement to sell the capital stock of AIG Trading Corporation, which constitutes the energy operations of AIGTG. It is not anticipated that the sale of these operations will have any significant impact on AIG. The transaction is subject to regulatory review and approval.

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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 September 30, 1997.

SIGNATURES

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

AMERICAN INTERNATIONAL GROUP, INC.

-----  
(Registrant)

s/s HOWARD I. SMITH

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Howard I. Smith  
Executive Vice President, Chief  
Financial Officer and Comptroller

Dated: November 13, 1997

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION	LOCATION
2	Plan of acquisition, reorganization, arrangement, liquidation or succession.....	None
3(ii)	By-laws of AIG.....	Filed herewith.
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

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## AMERICAN INTERNATIONAL GROUP, INC.

## BY-LAWS

## ARTICLE I

## Stockholders

Section 1.1. Annual Meetings. An annual meeting of stockholders shall be held for the election of directors at such date, time and place either within or without the State of Delaware as may be designated by the Board of Directors from time to time. Any other proper business may be transacted at the annual meeting.

Section 1.2. Special Meetings. Special meetings of stockholders for any purpose or purposes may be called at any time by the Chairman, a Vice Chairman, if any, the President, if any, the Secretary or the Board of Directors, to be held at such date, time and place either within or without the State of Delaware as may be stated in the notice of the meeting. A special meeting of stockholders shall be called by the Secretary upon the written request, stating the purpose of the meeting, of stockholders who together own of record twenty-five percent of the outstanding shares of each class of stock entitled to vote at such meeting.

Section 1.3. Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the written notice of any meeting shall be given not less than ten nor more than sixty days before the date of such meeting to each stockholder entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation. No business other than that stated in the notice shall be transacted at any special meeting without the unanimous consent of all the stockholders entitled to vote thereat.

Section 1.4. Adjournments. Any meeting of stockholders, annual or special, may adjourn from time to time to reconvene at the same or some other place, and notice need not be given of any such adjourned meeting if the time and place thereof are announced

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at the meeting at which the adjournment is taken; provided, that if the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At the adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting.

Section 1.5. Quorum. At each meeting of stockholders, except where otherwise provided by law or the certificate of incorporation or these by-laws, the holders of a majority of the outstanding shares of each class of stock entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum. In the absence of a quorum, the stockholders so present may, by majority vote, adjourn the meeting from time to time in the manner provided by Section 1.4 of these by-laws until a quorum shall attend. Shares of its own capital stock belonging on the record date for the meeting to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held by it in a fiduciary capacity.

Section 1.6. Organization. Meetings of stockholders shall be presided over by the Chairman, or in the absence of the Chairman by a Vice Chairman, if any, or in the absence of a Vice Chairman by the President, if any, or in the absence of the President by a Vice President, or in the absence of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen at the meeting. The Secretary shall act as secretary of the meeting, or in the absence of the Secretary an Assistant Secretary shall so act, or in their absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 1.7. Classes or Series of Stock; Voting Proxies. For purposes of this Article I, two or more classes or series of stock shall be considered a single class if and to the extent that the holders thereof are entitled to vote together as a single class at the meeting. Unless otherwise provided in the certificate of incorporation, each stockholder entitled to vote at any meeting of stockholders shall be entitled to one vote for each share of stock held by such stockholder which has voting power upon the matter in question. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed

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proxy shall be irrevocable if it states that it is irrevocable and if and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the Secretary of the Corporation. Voting at meetings of stockholders need not be by written ballot and need not be conducted by inspectors unless the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon present in person or by proxy at such meeting shall so determine. At all meetings of stockholders for the election of directors a plurality of the votes cast shall be sufficient to elect. With respect to other matters, unless otherwise provided by law or by the certificate of incorporation or these by-laws, the affirmative vote of the holders of a majority of the shares of all classes of stock present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, provided that (except as otherwise required by law or by the certificate of incorporation) the Board of Directors may require a larger vote upon any such matter. Where a separate vote by class is required, the affirmative vote of the holders of a majority of the shares of each class present in person or represented by proxy at the meeting shall be the act of such class, except as otherwise provided by law or by the certificate of incorporation or these by-laws.

Section 1.8. Fixing Date for Determination of Stockholders of Record. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of any meeting, nor more than sixty days prior to any other action. If no record date is fixed: (1) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (2) the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the board is necessary, shall be the day on which the first written consent is expressed; and (3) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of

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stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 1.9. List of Stockholders Entitled to Vote. The Secretary shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

Section 1.10. Consent of Stockholders in Lieu of Meeting. Unless otherwise provided in the certificate of incorporation, any action required by law to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

Section 1.11. Advance Notice of Stockholder Proposals. At any annual or special meeting of stockholders, proposals by stockholders and persons nominated for election as directors by stockholders shall be considered only if advance notice thereof has been timely given as provided herein and such proposals or nominations are otherwise proper for consideration under applicable law and the certificate of incorporation and by-laws of the Corporation. Notice of any proposal to be presented by any stockholder or of the name of any person to be nominated by any stockholder for election as a director of the Corporation at any meeting of stockholders shall be delivered to the Secretary of the Corporation at its principal executive office not less than 60 nor more than 90 days prior to the date of the meeting; provided, however, that if the date of the meeting is first publicly announced or disclosed (in a public filing or otherwise) less than 70 days prior to the date of the meeting, such advance notice shall be given not more than ten days after such date is first so

announced or disclosed. Public notice shall be deemed to have been given more than 70 days in advance of the annual meeting if the Corporation shall have previously disclosed, in these by-laws or otherwise, that the annual meeting in each year is to be held on a determinable date, unless and until the Board determines to hold the meeting on a different date. Any stockholder who gives notice of any such proposal shall deliver therewith the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder and any material interest of such stockholder in the proposal (other than as a stockholder). Any stockholder desiring to nominate any person for election as a director of the Corporation shall deliver with such notice a statement in writing setting forth the name of the person to be nominated, the number and class of all shares of each class of stock of the Corporation beneficially owned by such person, the information regarding such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the Securities and Exchange Commission applicable to the Corporation), such person's signed consent to serve as a director of the Corporation if elected, such stockholder's name and address and the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder. As used herein, shares "beneficially owned" shall mean all shares as to which such person, together with such person's affiliates and associates (as defined in Rule 12b-2 under the Securities Exchange Act of 1934), may be deemed to beneficially own pursuant to Rules 13d-3 and 13d-5 under the Securities Exchange

Act of 1934, as well as all shares as to which such person, together with such person's affiliates and associates, has the right to become the beneficial owner pursuant to any agreement or understanding, or upon the exercise of warrants, options or rights to convert or exchange (whether such rights are exercisable immediately or only after the passage of time or the occurrence of conditions). The person presiding at the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall determine whether such notice has been duly given and shall direct that proposals and nominees not be considered if such notice has not been given.

## ARTICLE II

### Board of Directors

Section 2.1. Powers; Number; Qualifications. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors, except as may be otherwise provided by law or in the certificate of incorporation.

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The Board shall consist of not less than seven nor more than 21 members, the number thereof to be determined from time to time by the Board; provided, however, that in determining the number of directors no account shall be taken of any non-voting director, including any advisory or honorary director, that may be elected from time to time by a majority of the Board of Directors. The number of directors may be increased by amendment of these by-laws by the affirmative vote of a majority of the directors then in office, although less than a quorum, or by the affirmative vote of the holders of a majority of the outstanding shares of all classes of stock entitled to vote thereon, and by like vote the additional directors may be elected to hold office until the next succeeding annual meeting of stockholders and until their respective successors are elected and qualified or until their respective earlier resignations or removals. Directors need not be stockholders.

Section 2.2. Election; Term of Office; Resignation; Removal; Vacancies. Each director shall hold office until the annual meeting of stockholders next succeeding his or her election and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any director may resign at any time upon written notice to the Board of Directors or to the Chairman or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and no acceptance of such resignation shall be necessary to make it effective. Any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors; and any vacancy so created may be filled by the holders of a majority of the shares then entitled to vote at an election of directors. Whenever the holders of any class or series of stock are entitled to elect one or more directors by the provisions of the certificate of incorporation, the provisions of the preceding sentence shall apply, in respect to the removal without cause of a director or directors so elected, to the vote of the holders of the outstanding shares of that class or series and not to the vote of the outstanding shares as a whole. Unless otherwise provided in the certificate of incorporation or these by-laws, vacancies (other than any vacancy created by removal of a director by shareholder vote) and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class or from any other cause may be filled by a majority of the directors then in office, although less than a quorum, or by the sole remaining director. Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may, unless otherwise provided in the certificate of incorporation, be

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filled by a majority of the directors elected by such class or classes or series thereof then in office, or by the sole remaining director so elected.

Section 2.3. Regular Meetings. Regular meetings of the Board of

Directors may be held at such places within or without the State of Delaware and at such times as the Board may from time to time determine, and if so determined notice thereof need not be given.

Section 2.4. Special Meetings. Special meetings of the Board of Directors may be held at any time or place within or without the State of Delaware whenever called by the Chairman or by the Secretary on the written request of any two directors. Reasonable notice thereof shall be given by the person calling the meeting.

Section 2.5. Participation in Meetings by Conference Telephone Permitted. Unless otherwise restricted by the certificate of incorporation or these by-laws, members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this by-law shall constitute presence in person at such meeting.

Section 2.6. Quorum; Vote Required for Action. At all meetings of the Board of Directors a majority of the entire Board shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board unless the certificate of incorporation or these by-laws shall require a vote of a greater number. In case at any meeting of the Board a quorum shall not be present, a majority of the members of the Board present may adjourn the meeting from time to time until a quorum shall attend, and notice need not be given of any such adjourned meeting if the time and place thereof are announced at the meeting at which adjournment is taken.

Section 2.7. Organization. Meetings of the Board of Directors shall be presided over by the Chairman, or in the absence of the Chairman by a Vice Chairman, if any, or in the absence of a Vice Chairman by the President, if any, or in their absence by a chairman chosen at the meeting. The Secretary, or in the absence of the Secretary an Assistant Secretary, shall act as secretary of the meeting, but in the absence of the Secretary and any Assistant Secretary the chairman of the meeting may appoint any person to act as secretary of the meeting.

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Section 2.8. Action by Directors Without a Meeting. Unless otherwise restricted by the certificate of incorporation or these by-laws, any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting if all members of the Board or of such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

Section 2.9. Compensation of Directors. The Board of Directors shall have the authority to fix the compensation of directors.

### ARTICLE III

#### Committees

Section 3.1. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of two or more of the directors of the Corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent permitted by applicable law and provided in the resolution of the Board or in these by-laws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in these by-laws or as may be determined from time to time by resolution adopted by the Board of Directors. The committees shall keep regular minutes of

their proceedings and report the same to the Board of Directors when required. If the committee is for the purpose of managing the business of a division of the Corporation, at the option of the Board of Directors and provided that two directors serve on such committee, one or more of the members of the committee may be an officer or officers or employee or employees of the Corporation or a subsidiary thereof who are not directors, provided further that neither the quorum nor any action of the committee shall be determined by the presence or vote of any such member who is not a director.

The Executive Committee, if one shall be designated, to the extent permitted by applicable law shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may

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authorize the seal of the Corporation to be affixed to all papers which may require it. Except as otherwise provided from time to time in resolutions passed by a majority of the whole Board of Directors, the powers and authority of the Executive Committee shall include the power and authority to declare a dividend on stock, to authorize the issuance of stock and to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law.

The Audit Committee, if one shall be designated, shall be composed of at least three directors, all of whom shall be persons who are not officers or employees of the Corporation or any of its parents or affiliates. Such Committee shall have the duty to advise the Board of Directors and the officers generally in matters relating to audits of the records of account of the Corporation and its subsidiaries. Such Committee shall recommend to the Board of Directors the nomination of the independent public accountants for the ensuing fiscal year, shall meet from time to time with the independent public accountants to review the scope of any proposed audit and to review the financial statements of the Corporation and its subsidiaries and the public accountants' certificate relating thereto, and may also meet with such internal auditors as may be employed by the Corporation or its subsidiaries.

The Finance Committee, if one shall be designated, shall direct the financial and investment policy of the Corporation. Subject to the control of the Board of Directors, it shall have power to invest and reinvest the assets of the Corporation in such securities or other property as it may elect and to change such investments at such time or times as it may deem proper, all subject to the requirements of law, and to assist, counsel and advise the Finance and Investment Committees of the Corporation's subsidiaries. All action taken by the Finance Committee shall be reported to the Board at its meeting next succeeding such action.

Section 3.2. Committee Rules. Unless the Board of Directors otherwise provides, each committee designated by the Board may adopt, amend and repeal rules for the conduct of its business. In the absence of a provision by the Board or a provision in the rules of such committee to the contrary, a majority of the members of such committee shall constitute a quorum for the transaction of business, the vote of a majority of the members present at a meeting at the time of such vote if a quorum is then present shall be the act of such committee, and in other respects each committee shall conduct its business in the same manner as the Board conducts its business pursuant to Article II of these by-laws.

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#### ARTICLE IV

##### Officers

Section 4.1. Officers; Election. As soon as practicable after the annual meeting of stockholders in each year, the Board of Directors shall elect a Chairman and a Secretary, and it may, if it so determines, elect one or more Vice Chairman and a President. The Board may also elect one or more Vice Presidents, one or more Assistant Vice Presidents, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers and such other officers as the Board may deem desirable or appropriate and may give any of them

such further designations or alternate titles as it considers desirable. Any number of offices may be held by the same person.

Section 4.2. Term of Office; Resignation; Removal; Vacancies. Except as otherwise provided in the resolution of the Board of Directors electing any officer each officer shall hold office until the first meeting of the Board after the annual meeting of stockholders next succeeding his or her election, and until his or her successor is elected and qualified or until his or her earlier resignation or removal. Any officer may resign at any time upon written notice to the Board or to the Chairman or the Secretary of the Corporation. Such resignation shall take effect at the time specified therein, and no acceptance of such resignation shall be necessary to make it effective. The Board may remove any officer with or without cause at any time. Any such removal shall be without prejudice to the contractual rights of such officer, if any, with the Corporation, but the election of an officer shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation by death, resignation, removal or otherwise may be filled for the unexpired portion of the term by the Board at any regular or special meeting.

Section 4.3. Chairman. The Chairman shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present. The Chairman shall be the chief executive officer and shall have general charge and supervision of the business of the Corporation and, in general, shall perform all duties incident to the office of chairman of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

Section 4.4. Vice Chairman. In the absence of the Chairman, a Vice Chairman, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present and shall have and may exercise such powers as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

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Section 4.5. President. In the absence of the Chairman and a Vice Chairman, the President, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which he or she shall be present and shall have and may exercise such powers as may, from time to time, be assigned to him or her by the Board or as may be provided by law.

Section 4.6. Vice Presidents. The Vice President or Vice Presidents, at the request or in the absence of the President or during the President's inability to act, shall perform the duties of the President, and when so acting shall have the powers of the President. Vice Presidents include all Executive Vice Presidents and Senior Vice Presidents. If there be more than one Vice President, the Board of Directors may determine which one or more of the Vice Presidents shall perform any of such duties; or if such determination is not made by the Board, the Chairman may make such determination; otherwise any of the Vice Presidents may perform any of such duties. The Vice President or Vice Presidents shall have such other powers and shall perform such other duties as may, from time to time, be assigned to him or her or them by the Board or the Chairman or as may be provided by law.

Section 4.7. Secretary. The Secretary shall have the duty to record the proceedings of the meetings of the stockholders, the Board of Directors and any committees in a book to be kept for that purpose, shall see that all notices are duly given in accordance with the provisions of these by-laws or as required by law, shall be custodian of the records of the Corporation, may affix the corporate seal to any document the execution of which, on behalf of the Corporation, is duly authorized, and when so affixed may attest the same, and, in general, shall perform all duties incident to the office of secretary of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or the Chairman or as may be provided by law.

Section 4.8. Treasurer. The Treasurer shall have charge of and be responsible for all funds, securities, receipts and disbursements of the Corporation and shall deposit or cause to be deposited, in the name of the Corporation, all moneys or other valuable effects in such banks, trust companies or other depositories as shall, from time to time, be selected by or under authority of the Board of Directors. If required by the Board, the Treasurer shall give a bond for the faithful discharge of his or her duties, with such surety or sureties as the Board may determine. The Treasurer shall keep or cause



to be kept full and accurate records of all receipts and disbursements in books of the Corporation, shall render to the Chairman and to the Board, whenever requested, an account of the financial condition of the Corporation, and, in general, shall perform all the duties incident to the office of treasurer of a corporation and such other duties as may, from time to time, be assigned to him or her by the Board or the Chairman or as may be provided by law.

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Section 4.9. Other Officers. The other officers, if any, of the Corporation, including any Assistant Vice Presidents, shall have such powers and duties in the management of the Corporation as shall be stated in a resolution of the Board of Directors which is not inconsistent with these by-laws and, to the extent not so stated, as generally pertain to their respective offices, subject to the control of the Board. The Board may require any officer, agent or employee to give security for the faithful performance of his or her duties.

## ARTICLE V

### Stock

Section 5.1. Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman or a Vice Chairman, if any, or the President, if any, or a Vice President and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary, of the Corporation, certifying the number of shares owned by such holder in the Corporation. If such certificate is manually signed by one officer or manually countersigned by a transfer agent or by a registrar, any other signature on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

Section 5.2. Lost, Stolen or Destroyed Stock Certificates; Issuance of New Certificates. The Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

## ARTICLE VI

### Miscellaneous

Section 6.1. Fiscal Year. The fiscal year of the Corporation shall be the calendar year.

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Section 6.2. Seal. The Corporation may have a corporate seal which shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors. The corporate seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

Section 6.3. Waiver of Notice of Meetings of Stockholders, Directors and Committees. Whenever notice is required to be given by law or under any provision of the certificate of incorporation or these by-laws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at,

nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee of directors need be specified in any written waiver of notice unless so required by the certificate of incorporation or these by-laws.

Section 6.4. Indemnification of Directors, Officers and Employees. The Corporation shall indemnify to the full extent authorized by law any person made or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person or such person's testator or intestate is or was a director, officer or employee of the Corporation or serves or served at the request of the Corporation any other enterprise as a director, officer, employee or agent. For purposes of this by-law, the term "Corporation" shall include any predecessor of the Corporation and any constituent corporation (including any constituent of a constituent) absorbed by the Corporation in a consolidation or merger: the term "other enterprise" shall include any corporation, partnership, joint venture, trust or employee benefit plan; service "at the request of the Corporation" shall include service as a director, officer or employee of the Corporation which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants or beneficiaries; any excise taxes assessed on a person with respect to an employee benefit plan shall be deemed to be indemnifiable expenses; and action by a person with respect to an employee benefit plan which such person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Corporation.

Section 6.5. Interested Directors; Quorum. No contract or transaction between the Corporation and one or more of its

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directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or her or their votes are counted for such purpose, if: (1) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (3) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

Section 6.6. Form of Records. Any records maintained by the Corporation in the regular course of its business, including its stock ledger, books of account and minute books, may be kept on, or be in the form of, punch cards, magnetic tape, photographs, microphotographs or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time. The Corporation shall so convert any records so kept upon the request of any person entitled to inspect the same.

Section 6.7. Dividends. Subject to the provisions of the certificate of incorporation, the Board of Directors may, out of funds legally available therefor at any regular or special meeting, declare dividends upon the capital stock of the Corporation as and when they deem expedient. Before declaring any dividend, the Board may cause to be set apart out of any funds of the Corporation available for dividends, such sum or sums as the directors from time to time in their discretion deem proper for working capital or as a reserve fund to meet contingencies or for equalizing dividends or for such other purposes as the directors shall deem conducive to the interests of the Corporation.

Section 6.8. Checks. All checks, drafts or other orders for the

payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such

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officer or officers, agent or agents of the Corporation, and in such manner as shall be determined from time to time by resolution of the Board of Directors.

Section 6.9. Amendment of By-Laws. These by-laws may be amended or repealed, and new by-laws adopted, by the affirmative vote of a majority of the Board of Directors, but the holders of a majority of the shares then entitled to vote may adopt additional by-laws and may amend or repeal any by-law whether or not adopted by them.

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## EXHIBIT 11

## AMERICAN INTERNATIONAL GROUP, INC.

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

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
Average outstanding shares used in the computation of per share earnings:				
Common stock*.....	759,125	759,126	759,123	759,126
Common stock in treasury*.....	(56,551)	(51,853)	(57,738)	(54,971)
	702,574	707,273	701,385	704,155
	=====	=====	=====	=====
Net income applicable to common stock...	\$2,447,748	\$2,127,023	\$840,318	\$731,437
	=====	=====	=====	=====
Net income per share.....	\$3.48	\$3.01	\$1.19	\$1.04
	=====	=====	=====	=====

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\* Adjusted for a common stock split in the form of a 50 percent common stock dividend paid July 25, 1997. The effects of all other common stock equivalents are not significant.

## AMERICAN INTERNATIONAL GROUP, INC.

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

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	1997	1996	1997	1996
Income before income taxes.....	\$3,451,245	\$2,943,850	\$1,184,574	\$1,018,071
Less -- Equity income of less than 50% owned persons.....	89,193	88,402	23,046	31,715
Add -- Dividends from less than 50% owned persons.....	20,247	9,843	3,682	4,862
	3,382,299	2,865,291	1,165,210	991,218
Add --				
Fixed charges.....	1,340,101	1,165,706	446,820	396,548
Less --				
Capitalized interest.....	35,586	37,424	11,808	12,730
Income before income taxes and fixed charges.....	\$4,686,814	\$3,993,573	\$1,600,222	\$1,375,036
Fixed charges:				
Interest costs.....	\$1,284,448	\$1,109,813	\$ 428,269	\$ 377,917
Rent expense*.....	55,653	55,893	18,551	18,631
Total fixed charges.....	\$1,340,101	\$1,165,706	\$ 446,820	\$ 396,548
Ratio of earnings to fixed charges.....	3.50	3.43	3.58	3.47

\* The proportion deemed representative of the interest factor.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 5.53 and 5.21 for the third quarter and 5.43 and 5.17 for the first nine months of 1997 and 1996, 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.

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