UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

/X/ QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

FOR THE TRANSITION PERIOD FROM ---------- TO ----------

FOR QUARTER ENDED MARCH 31, 1995 COMMISSION FILE NUMBER 0-4652

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

DELAWARE	13-2592361
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
70 PINE STREET, NEW YORK, NEW YORK	10270
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

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

NONE
Former name, former address and former fiscal year, if changed since last report.

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

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 1995 315,947,988.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

	MARCH 31, 1995 (UNAUDITED)	DECEMBER 31, 1994
ASSETS:		
Investments and cash:		
Fixed maturities:		
Bonds held to maturity, at amortized cost (market value: 1995 -- $14,219,100; 1994 -- $13,109,700)	$ 13,709,332	$ 13,041,807
Bonds available for sale, at market value (amortized cost: 1995 -- $23,963,000; 1994 -- $22,207,300)	23,951,195	21,812,600
Bonds trading securities, at market value (cost: 1995 -- $174,800; 1994 -- $172,000)	178,420	163,956
Preferred stocks, at amortized cost (market value: 1995 -- $524,800; 1994 -- $424,800)	437,551	412,503
Equity securities:		
Common stocks (cost: 1995 -- $4,642,400; 1994 -- $4,607,800)	4,824,362	5,002,668
Non-redeemable preferred stocks (cost: 1995 -- $85,400; 1994 -- $85,900)	89,581	96,503
Mortgage loans on real estate, policy and collateral loans -- net	6,523,950	5,353,074
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (1995 -- $1,029,000; 1994 -- $959,100)	11,645,851	10,723,527
Securities available for sale, at market value (cost: 1995 -- $3,947,400; 1994 -- $3,794,100)	3,951,184	3,796,792
Trading securities, at market value	3,499,809	2,483,637
Spot commodities, at market value	1,171,765	916,833
Unrealized gain on interest rate and currency swaps, options and forward transactions	6,716,203	4,650,743
Trade receivables	3,934,282	2,629,734
Securities purchased under agreements to resell, at contract value	1,468,215	1,209,403
Other invested assets	1,956,361	1,953,015
Short-term investments, at cost which approximates market value	1,995,059	2,467,453
Cash	101,836	76,237
Total investments and cash	86,154,956	76,790,485
Investment income due and accrued	908,951	927,951
Premiums and insurance balances receivable -- net	9,743,306	8,802,207
Reinsurance assets	16,544,946	16,289,607
Deferred policy acquisition costs	5,454,348	5,132,245
Investments in partially-owned companies	690,769	645,167
Real estate and other fixed assets, net of accumulated depreciation (1995 -- $1,168,600; 1994 -- $1,129,500)	1,870,733	1,865,244
Separate and variable accounts	2,390,890	2,297,605
Other assets	1,593,653	1,595,606
Total assets	$125,352,552	$114,346,117

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	MARCH 31, 1995 (UNAUDITED)	DECEMBER 31, 1994
LIABILITIES:		
Reserve for losses and loss expenses	$ 32,092,723	$ 31,435,355
Reserve for unearned premiums	6,510,482	6,318,754
Future policy benefits for life and accident and health insurance contracts	18,857,881	17,432,222
Policyholders' contract deposits	7,846,021	6,487,426
Other policyholders' funds	2,055,553	1,951,358
Reserve for commissions, expenses and taxes	1,420,677	1,319,183
Insurance balances payable	2,064,983	1,462,545
Funds held by companies under reinsurance treaties	367,950	382,853
Income taxes payable:		
Current	223,875	420,569
Deferred	100,428	33,031
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	5,374,021	5,535,318
Securities sold under agreements to repurchase, at contract value	1,937,564	1,342,064
Trade payables	4,603,232	2,108,263
Securities sold but not yet purchased, principally obligations of the U.S. Government and Government agencies, at market value	317,998	192,898
Spot commodities sold but not yet purchased, at market value	609,686	369,089
Unrealized loss on interest rate and currency swaps, options and forward transactions	5,780,567	3,659,450
Deposits due to banks and other depositors	642,266	655,973
Commercial paper	2,193,360	1,960,545
Notes, bonds and loans payable	7,320,750	7,567,046
Commercial paper	2,100,869	1,829,014
Notes, bonds, loans and mortgages payable	641,677	627,554
Separate and variable accounts	2,390,890	2,297,605
Other liabilities	2,552,461	2,336,341
Total liabilities	108,005,914	97,724,456
Preferred shareholders' equity in subsidiary company	300,000	200,000
CAPITAL FUNDS:		
Common stock, $2.50 par value; 500,000,000 shares authorized; shares issued 1995 -- 337,390,984; 1994 -- 337,390,984	843,477	843,477
Additional paid-in capital	560,284	565,410
Unrealized appreciation of investments, net of taxes	225,515	184,556
Cumulative translation adjustments, net of taxes	(243,195)	(288,074)
Retained earnings	15,876,755	15,340,928
Treasury stock, at cost; 1995 -- 21,442,996; 1994 -- 21,550,358 shares of common stock	(216,198)	(224,636)
Total capital funds	17,046,638	16,421,661
Total liabilities and capital funds	$125,352,552	$114,346,117

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1994
General insurance operations:		
Net premiums written	$2,878,995	$2,621,305
Change in unearned premium reserve	(115,147)	(164,952)
Net premiums earned	2,763,848	2,456,353
Net investment income	379,665	354,129
Realized capital gains	24,410	20,094
	3,167,923	2,830,576
Losses and loss expenses incurred	2,170,210	1,977,467
Underwriting expenses	527,819	483,554
	2,698,029	2,461,021
Operating income	469,894	369,555
Life insurance operations:		
Premium income	1,789,749	1,495,099
Net investment income	502,440	407,996
Realized capital gains	2,931	28,740
	2,295,120	1,931,835
Death and other benefits	717,737	576,801
Increase in future policy benefits	843,940	712,453
Acquisition and insurance expenses	496,974	419,460
	2,058,651	1,708,714
Operating income	236,469	223,121
Agency and service fee operating income	16,560	15,575
Financial services operating income	75,537	97,098
Equity in income of minority-owned insurance operations	17,689	7,272
Other realized capital gains (losses)	(7,734)	(10,205)
Minority interest	(9,372)	(5,546)
Other income (deductions) -- net	(13,249)	(18,460)
Income before income taxes	785,794	678,410
Income taxes (benefits) -- Current	177,896	218,969
-- Deferred	35,742	(46,177)
	213,638	172,792
Net income	$ 572,156	$ 505,618
Earnings per common share:		
Net income	$ 1.81	$ 1.59
Cash dividends per common share	$ 0.115	$ 0.10
Average shares outstanding	315,898	317,456

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31,	
	1995	1994
Cash Flows From Operating Activities:		
Net Income	$ 572,156	$ 505,618
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	2,253,079	1,498,168
Premiums and insurance balances receivable and payable -- net	(338,661)	(308,881)
Reinsurance assets	(255,339)	(68,156)
Deferred policy acquisition costs	(322,103)	(235,909)
Investment income due and accrued	19,000	42,832
Funds held under reinsurance treaties	(14,903)	(12,683)
Other policyholders' funds	104,195	77,211
Current and deferred income taxes -- net	(160,952)	(105,708)
Reserve for commissions, expenses and taxes	101,494	89,298
Other assets and liabilities -- net	218,073	(250,143)
Trade receivables and payables -- net	1,190,421	(10,230)
Trading securities, at market value	(1,016,172)	499,635
Spot commodities, at market value	(254,932)	(144,233)
Net unrealized gain on interest rate and currency swaps, options and forward transactions	55,657	(51,003)
Securities purchased under agreements to resell	(258,812)	(33,809)
Securities sold under agreements to repurchase	595,500	465,903
Securities sold but not yet purchased	125,100	543,178
Spot commodities sold but not yet purchased, at market value	240,597	16,886
Realized capital gains	(19,607)	(38,629)
Equity in income of partially-owned companies and other invested assets	(23,778)	(14,225)
Depreciation expenses, principally flight equipment	169,833	128,396
Change in cumulative translation adjustments	50,649	36,354
Other -- net	(29,459)	(42,310)
Total Adjustments	2,428,880	2,081,942
Net cash provided by operating activities	3,001,036	2,587,560

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1994
Cash Flows From Investing Activities:		
Cost of fixed maturities, at amortized cost matured or redeemed	282,232	172,275
Cost of bonds, at market sold	2,176,162	1,890,940
Cost of bonds, at market matured or redeemed	586,441	325,552
Cost of equity securities sold	721,255	740,158
Realized capital gains	19,607	38,629
Purchases of fixed maturities	(5,495,622)	(3,334,783)
Purchases of equity securities	(735,976)	(1,001,703)
Mortgage, policy and collateral loans granted	(1,361,812)	(844,575)
Repayments of mortgage, policy and collateral loans	187,525	98,756
Sales of securities available for sale	787,250	928,106
Maturities of securities available for sale	97,155	208,200
Purchases of securities available for sale	(1,038,941)	(1,798,121)
Sales of flight equipment	32,259	78,630
Purchases of flight equipment	(1,060,024)	(789,817)
Net additions to real estate and other fixed assets	(69,881)	(85,549)
Sales or distributions of other invested assets	81,039	32,446
Investments in other invested assets	(165,512)	(143,809)
Change in short-term investments	472,394	114,104
Investments in partially-owned companies	(12,113)	(28,005)
Net cash used in investing activities	(4,496,562)	(3,398,566)
Cash Flows From Financing Activities:		
Change in policyholders' contract deposits	1,358,595	954,941
Change in deposits due to banks and other depositors	(13,707)	30,283
Change in commercial paper	504,670	3,508
Proceeds from notes, bonds, loans and mortgages payable	1,493,887	1,006,057
Repayments on notes, bonds, loans and mortgages payable	(1,728,006)	(428,292)
Proceeds from guaranteed investment agreements	750,069	275,126
Maturities of guaranteed investment agreements	(911,366)	(989,438)
Proceeds from subsidiary company preferred stock issued	98,486	--
Proceeds from common stock issued	5,193	3,267
Cash dividends to shareholders	(36,329)	(31,766)
Acquisition of treasury stock	(367)	(68,552)
Net cash provided by financing activities	1,521,125	755,134
Change in cash	25,599	(55,872)
Cash at beginning of period	76,237	157,481
Cash at end of period	$ 101,836	$ 101,609

See Accompanying Notes to Financial Statements.

AMERICAN INTERNATIONAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1995

(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. The effect of potentially dilutive securities is not significant.

(c) Supplemental cash flow information for the three month period ended March 31, 1995 and 1994 is as follows:

	1995	1994
	(IN THOUSANDS)	
Income taxes paid	$372,800	$276,300
Interest paid	$256,100	$195,900

(d) For further information, refer to the Form 10-K filing of AIG for the year ended December 31, 1994.

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 three month periods ending March 31, 1995 and 1994 were as follows:

(in thousands)

	1995	1994
Net premiums written:		
Domestic	$1,954,500	$1,804,500
Foreign	924,500	816,800
Total	$2,879,000	$2,621,300
Net premiums earned:		
Domestic	$1,871,500	$1,683,700
Foreign	892,300	772,700
Total	$2,763,800	$2,456,400
Adjusted underwriting profit (loss):		
Domestic	$ (7,100)	$ (55,000)
Foreign	72,900	50,400
Total	$ 65,800	$ (4,600)
Net investment income:		
Domestic	$ 309,200	$ 287,900
Foreign	70,500	66,200
Total	$ 379,700	$ 354,100
Operating income before realized capital gains:		
Domestic	$ 302,100	$ 232,900
Foreign	143,400	116,600
Total	445,500	349,500
Realized capital gains	24,400	20,100
Operating income	$ 469,900	$ 369,600

During the first three months of 1995, the net premiums written and the net premiums earned in AIG's general insurance operations increased 9.8 percent and 12.5 percent, respectively, from those of 1994.

The growth in net premiums written in the first three months of 1995 over the same period of 1994 resulted from a combination of several factors. Domestically, AIG continued to achieve general price increases in certain domestic commercial property and some specialty casualty markets, as well as growth in personal lines. Overseas, growth was achieved through price and volume increases. Foreign general insurance operations produced 32.1 percent of the general insurance net premiums written in this period of 1995 and 31.2 percent in the same period of 1994.

During the first three months of 1995, the U.S. dollar declined in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, the translation of foreign net premiums written into U.S. dollars for the purposes of consolidation caused the increase in total net premiums written to be approximately one percentage point greater than it would have been if translated utilizing exchange rates prevailing in the first three months of 1994.

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 for the three month periods ended March 31, 1995 and 1994 were as follows:

	1995	1994

Domestic:		
Loss Ratio	87.69	89.57
Expense Ratio	13.74	14.78
Combined Ratio	101.43	104.35
Foreign:		
Loss Ratio	59.30	60.75
Expense Ratio	32.11	32.08
Combined Ratio	91.41	92.83
Consolidated:		
Loss Ratio	78.52	80.50
Expense Ratio	19.64	20.17
Combined Ratio	98.16	100.67

In January 1995, the Kobe region of Japan suffered severe damage from an earthquake resulting in gross and net incurred losses approximating $73 million and $30 million, respectively.

The Northridge earthquake which struck the Los Angeles area of California in January 1994, resulted in gross and net incurred losses of approximately $174 million and $55 million, respectively.

Although there were severe winter storms during the first quarter of 1994, AIG considered these as losses incurred in the ordinary course of business, not as catastrophes.

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

	1995	1994
Loss Ratio	77.43	78.26
Expense Ratio	19.64	20.17
Combined Ratio	97.07	98.43

The maintenance of the pro forma statutory combined ratio in each period at a level below 100 is a result of the profitability of AIG's foreign general insurance operations and AIG's emphasis on maintaining its disciplined underwriting within the continued overall competitiveness of the domestic market environment as well as AIG's expense control.

Adjusted underwriting profit or loss (operating income less net investment income and realized capital gains) represents statutory underwriting profit or loss adjusted primarily for changes in deferred acquisition costs. The adjusted underwriting profit in the first three months of 1995 was $65.8 million compared to an adjusted underwriting loss of $4.6 million recorded in the same period of 1994.

Included in each of these results was the net impact of the aforementioned catastrophes of $30 million and $55 million in 1995 and 1994, respectively. Excluding the effects of the catastrophes, the general insurance operations would also have shown improvement in the first three months of 1995 when compared to the same period of 1994. This improvement is a result of a strategy implemented several years ago. That is, AIG withdrew from certain classes of domestic business, primarily agency lines and certain segments of workers' compensation business. At that time, AIG had determined that the returns on capital or equity allocated to such classes were deemed unacceptable. AIG's objective continues to be disciplined underwriting, especially in the domestic primary casualty market, and 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 three months of 1995 increased 7.2 percent when compared to the same period of 1994. The growth in net investment income was primarily attributable to new cash flow for investment. The new cash flow was generated from general insurance operating net 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 $24.4 million in the first three months of 1995, and $20.1 million in the same period of 1994. 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 three months of 1995 increased 27.2 percent when compared to the same period of 1994. The contribution of general insurance operating income to income before income taxes was 59.8 percent in the first three months of 1995 compared to 54.5 percent in the same period of 1994.

A period to period comparison of operating income is significantly influenced by the catastrophe losses in any one year as well as the volatility from one year to the next in realized capital gains. Adjusting each year to exclude the effects of both catastrophe losses and realized capital gains, operating income would have increased by 17.6 percent in 1995. The increase in the growth rate in the first three months of 1995 over the same period of 1994 after the aforementioned adjustments was a result of the increased net investment income and improvement in adjusted underwriting results.

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 which AIG desires. These reinsurance arrangements do not relieve AIG from its direct obligations to its insureds.

AIG's general reinsurance assets resulting from its reinsurance arrangements amounted to $16.54 billion at March 31, 1995. A credit exposure exists with respect to reinsurance recoverable when under the terms of the reinsurance arrangements any reinsurer may not be able to reimburse AIG. With respect to its reinsurance relationships, AIG manages its credit risk 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. The application of this collateral against balances due or any changes to the amount of collateral are based on the development of losses recoverable on an individual reinsurer basis. This development includes losses incurred but not reported (IBNR). At December 31, 1994, approximately 59 percent of reinsurance recoverable is from unauthorized reinsurers. In order to obtain statutory recognition, nearly all of these balances are collateralized. The remaining 41 percent of the reinsurance recoverable is from authorized reinsurers and over 90 percent of such balances are from reinsurers rated A- (excellent) or better, as rated by A.M. Best. Through March 31, 1995, these distribution percentages have not significantly changed. The A.M. Best rating is a measure of financial strength. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness.

AIG's provision for estimated unrecoverable reinsurance has not significantly changed from December 31, 1994. AIG has been largely successful in its prior recovery efforts and has no significant reinsurance recoverables from any individual reinsurer which is financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

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

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

At March 31, 1995, the consolidated general reinsurance assets of $16.54 billion include reinsurance recoverables for (i) paid losses and loss expenses of $1.28 billion and (ii) the ceded reserve for losses and loss expenses, including losses and loss expenses incurred but not reported (ceded reserves) of $13.29 billion. 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 March 31, 1995 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 March 31, 1995, general insurance reserves for losses and loss expenses (loss reserves) amounted to $32.09 billion, an increase of $657.4 million or 2.1 percent over the prior year end. General insurance net loss reserves represent the accumulation of estimates of ultimate losses, including IBNR, and loss expenses, reduced by reinsurance recoverable net of an allowance for unrecoverable reinsurance and minor amounts of discounting related to certain workers' compensation claims. The net loss reserves increased $385.2 million or 2.1 percent to $18.80 billion. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are reflected in operating income currently. It is management's belief that the general insurance net loss reserves are adequate to cover all general insurance net losses and loss expenses as at March 31, 1995. 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. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms and current and future estimates of monetary inflation and social inflation. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs. Therefore, AIG's carried net long tail loss reserves are judgmentally set as well as tested for reasonableness using the most appropriate loss trend factors for each class of business. In the evaluation of AIG's net loss reserves, loss trend factors vary slightly, depending on the particular class and nature of the business involved. For the majority of long tail casualty lines, net loss trend factors approximating 10 percent were employed. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience.

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

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

AIG continues to receive indemnity claims asserting injuries from toxic waste, hazardous substances, 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. 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. AIG has established a specialized claims unit which investigates and adjusts all such asbestos and environmental claims.

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, judicial interpretations which broaden the intent of the policies and scope of coverage and the increasing number of new claims. The case law that has emerged can be characterized as still being in its infancy and the likelihood of any firm direction in the near future is very small. Additionally, the exposure for cleanup costs of hazardous waste dump sites involves 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 expected in 1995 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 March 31, 1995 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.

The estimated gross and net IBNR with respect to asbestos and environmental claims were $170 million and $40 million at March 31, 1995 and $150 million and $30 million at December 31, 1994.

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at March 31, 1995 and 1994 was as follows:

(in millions)

	1995		1994	
	GROSS	NET	Gross	Net
Asbestos:				
Reserve for losses and loss expenses at beginning of period	$ 686.0	$130.2	$ 656.0	$116.7
Losses and loss expenses incurred	17.7	6.8	5.9	11.0
Losses and loss expenses paid	(36.1)	(7.0)	(30.3)	(8.4)
Reserve for losses and loss expenses at end of period	$ 667.6	$130.0	$ 631.6	$119.3
Environmental:				
Reserve for losses and loss expenses at beginning of period	$ 728.1	$200.1	$ 684.8	$191.5
Losses and loss expenses incurred	89.8	38.7	27.4	18.2
Losses and loss expenses paid	(34.0)	(13.9)	(17.7)	(8.7)
Reserve for losses and loss expenses at end of period	$ 783.9	$224.9	$ 694.5	$201.0
Combined:				
Reserve for losses and loss expenses at beginning of period	$1,414.1	$330.3	$1,340.8	$308.2
Losses and loss expenses incurred	107.5	45.5	33.3	29.2
Losses and loss expenses paid	(70.1)	(20.9)	(48.0)	(17.1)
Reserve for losses and loss expenses at end of period	$1,451.5	$354.9	$1,326.1	$320.3

A summary of asbestos and environmental claims count activity for the three month periods ended March 31, 1995 and 1994 were as follows:

	1995			1994		
	ASBESTOS	ENVIRONMENTAL	COMBINED	Asbestos	Environmental	Combined

Claims at beginning of period	5,947	16,223	22,170	5,522	16,661	22,183
Claims during period:						
Opened	303	914	1,217	338	919	1,257
Settled	(48)	(149)	(197)	(25)	(124)	(149)
Dismissed or otherwise resolved	(141)	(285)	(426)	(299)	(1,407)	(1,706)
Claims at end of period	6,061	16,703	22,764	5,536	16,049	21,585

The average cost per claim settled, dismissed or otherwise resolved for the three month periods ended March 31, 1995 and 1994 was as follows:

	1995 GROSS	1995 NET	1994 Gross	1994 Net
Asbestos	$191,000	$37,000	$93,500	$25,900
Environmental	78,300	32,000	11,600	5,700
Combined	112,500	33,500	25,900	9,200

Recently, an insurance rating agency 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 expenses over the respective claims settlements during the fiscal year. Such payments include indemnity payments and legal and loss adjustment payments. It should be noted, however, that this is an extremely simplistic approach to measuring asbestos and environmental reserve levels. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided have significant impact on the amount of asbestos and environmental losses and loss expense reserves, ultimate payments thereof and the resultant ratio. In addition to the study published by that insurance rating agency, another published study projected significantly lower ultimate costs for toxic waste cleanups for the insurance industry.

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.

Accordingly, AIG's annualized survival ratios for involuntary asbestos and environmental claims, separately and combined, were estimated as follows for the three month periods ended March 31, 1995 and 1994:

	1995 GROSS	1995 NET	1994 Gross	1994 Net
Involuntary survival ratios:				
Asbestos	4.6	4.6	5.2	3.6
Environmental	12.0	9.1	10.3	7.0
Combined	7.3	7.0	7.2	5.3

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 1994 was $48.2 million. Based upon current information, AIG does not anticipate that its net assessment will be significantly different in 1995. Also, AIG is required to participate in various involuntary pools (principally workers' compensation business) which provide insurance coverage for those not able to obtain such coverage in the voluntary markets. This participation is also recorded upon notification, as these amounts cannot reasonably be estimated.

Life Insurance Operations

Life insurance operations for the three months ended March 31, 1995 and 1994 were as follows:

(in thousands)

	1995	1994
Premium income:		
Domestic	$ 119,600	$ 98,800
Foreign	1,670,100	1,396,300
Total	$ 1,789,700	$ 1,495,100
Net investment income:		
Domestic	$ 189,500	$ 140,200
Foreign	312,900	267,800
Total	$ 502,400	$ 408,000
Operating income before realized capital gains:		
Domestic	$ 12,500	$ 8,300
Foreign	221,100	186,100
Total	$ 233,600	$ 194,400
Realized capital gains	2,900	28,700
Operating income	$ 236,500	$ 223,100
Life insurance in-force:		
Domestic	$ 48,250,400	$ 33,293,700
Foreign	332,773,000	249,034,900
Total	$381,023,400	$282,328,600

AIG's life insurance operations continued to show growth as a result of overseas operations, particularly in Asia. AIG's life premium income in the first three months of 1995 increased 19.7 percent over the same period in 1994. Foreign life operations produced 93.3 percent and 93.4 percent of the life premium income in 1995 and 1994, respectively.

As previously discussed, the U.S. dollar declined in value in relation to most major foreign currencies in which AIG transacts business. Accordingly, the translation of foreign life premium income into U.S. dollars for purposes of consolidation caused the increase in total premium income to be approximately four percentage points greater than it would have been if translated utilizing exchange rates prevailing in the first three months of 1994.

Life insurance net investment income increased 23.1 percent in the first three months of 1995 over the same period in 1994. The growth in net investment income was primarily attributable to new cash flow for investment. The new cash flow was generated from life insurance operating net cash flow and included the compounding of previously earned and reinvested net investment income. (See also the discussion under "Liquidity" herein.)

The growth in the premium income of the domestic life segment primarily resulted from the renewal of risk bearing premium related to corporate-owned life insurance products. Additionally, the interest income earned on the policy loans associated with these products caused domestic investment income to increase significantly.

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 $2.9 million in the first three months of 1995 and $28.7 million in the same period of 1994. 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 and redemptions of fixed maturities.

Life insurance operating income in the first three months of 1995 increased 6.0 percent to $236.5 million from $223.1 million in the same period of 1994. Excluding realized capital gains from life insurance operating income, the percent increase would be 20.1 percent in 1995. The contribution of life insurance operating income to income before income taxes amounted to 30.1 percent in 1995 compared to 32.9 percent in 1994. The decline in the percent contribution of life insurance operating income to income before taxes was the result of significantly less realized capital gains in 1995.

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

Underwriting risk represents the exposure to loss resulting from the actual policy experience adversely emerging in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses. AIG's life companies limit their maximum underwriting exposure on traditional life insurance of a single life to approximately $1.5 million of coverage by using yearly renewable term reinsurance. The life insurance operations have not entered into assumption reinsurance transactions or surplus relief transactions during the twelve month and three month periods ended December 31, 1994 and March 31, 1995, respectively.

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, 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, 1994, the average duration of the Japanese investment portfolio was 5.0 years, while the related Japanese policy liabilities were estimated to be 11.5 years. These durations have not significantly changed during 1995. To maintain an adequate yield to manage 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 and to manage more closely both duration and the required yield, AIG may invest in qualified longer-term securities outside Japan. 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, the asset-liability management process is appropriately functioning as there are investments available to match the duration and the required yield. (See also the discussion under "Liquidity" herein.)

AIG uses asset-liability management as a 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 an anticipated interest rate change or other economic changes.

Agency and Service Fee Operations

Agency and service fee operating income in the three months ended March 31, 1995 and 1994 was $16.6 million and $15.6 million, respectively. This was an increase of 6.3 percent. The increase in 1995 was due to increased commission revenue in certain of AIG's managing general agencies. Agency and service fee operating income contributed 2.1 percent to AIG's income before income taxes in 1995 compared to 2.3 percent in 1994.

Financial Services Operations

Financial services operations for the three months ended March 31, 1995 and 1994 were as follows:

(in thousands)

	1995	1994
Revenues:		
International Lease Finance Corp.	$303,700	$232,900
AIG Financial Products Corp.*	44,500	69,100
AIG Trading Group Inc.*	62,700	45,700
Other	87,500	56,500
Total	$498,400	$404,200
Operating income:		
International Lease Finance Corp.	$ 58,700	$ 57,900
AIG Financial Products Corp.	22,400	33,600
AIG Trading Group Inc.	9,500	7,600
Other, including intercompany adjustments	(15,100)	(2,000)
Total	$ 75,500	$ 97,100

* Represents net trading revenues.

Financial services operating income decreased 22.2 percent in the first three months of 1995 over the same period in 1994. The financial services operating income in 1995 decreased as a result of the declines in the operating income of AIG Financial Products Corp. and its subsidiaries (AIGFP) and other minor AIG financial services operations.

AIGFP participates in the derivatives dealer market conducting, as principal, an interest rate, currency and equity derivative products business which includes long-dated transactions. AIGFP also enters into guaranteed investment agreements.

AIGFP's revenues and operating income in the first three months of 1995 were less than those for the same period of 1994. These declines resulted from fewer transactions being closed in 1995 than in 1994. Current and past performance may not provide a basis for predicting future performance. AIGFP derives substantially all its revenues from proprietary positions entered in connection with counterparty transactions rather than from speculative transactions. (See also the discussions under "Capital Resources," "Liquidity" and "Derivatives" herein.)

International Lease Finance Corporation (ILFC) primarily engages in the acquisition of new and used commercial jet aircraft and the leasing and sale of such aircraft to airlines around the world. ILFC derives a substantial portion of its revenues from its leasing operations and is also engaged in the remarketing of commercial jets to and for airlines and financial institutions. As a result of the rising interest rate environment during 1994, ILFC's weighted average interest with respect to its borrowings increased during the first three months of 1995 when compared to 1994. Although the increase in interest expense had some impact on ILFC's current lease margins, it is not anticipated that the aforementioned rise in interest rates will have any significant impact on future operating income as lease margins generally lag rising interest rates. Accordingly, ILFC has negotiated appropriate lease rates on any new contracts. (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 March 31, 1995, only 2 of 282 aircraft owned were not leased. At May 1, 1995, one has been leased; the other is expected to be sold. All other aircraft remain leased. Currently, 75 percent of the fleet is leased to foreign carriers which produces approximately the same percent of ILFC's rental revenues. (See also the discussions under "Capital Resources" and "Liquidity" 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, petroleum and natural gas. AIGTG's operating income increased as a result of volatility in 1995 relative to 1994 in the markets in which AIGTG participates. (See also the discussions under "Liquidity" and "Derivatives" herein.)

Financial services operating income represented 9.6 percent of AIG's income before income taxes in the first three months of 1995. This compares to 14.3 percent in 1994.

Other Operations

In the first three months of 1995, AIG's equity in income of minority-owned insurance operations was $17.7 million compared to $7.3 million in the same period of 1994. The equity interest in insurance companies represented 2.3 percent of income before income taxes in 1995, compared to 1.1 percent in 1994.

Other realized capital losses amounted to $7.7 million and $10.2 million in the first three months of 1995 and 1994, respectively.

Minority interest represents minority shareholders' equity in income of certain consolidated subsidiaries. In the first three months of 1995, minority interest amounted to $9.4 million compared to $5.5 million for the same period of 1994.

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 three months of 1995 and 1994, net deductions amounted to $13.2 million and $18.5 million, respectively.

Income before income taxes amounted to $785.8 million during the first three months of 1995 and $678.4 million in 1994.

In the first three months of 1995, AIG recorded a provision for income taxes of $213.6 million compared to the provision of $172.8 million in the same period of 1994. These provisions represent effective tax rates of 27.2 percent in 1995 and 25.5 percent in 1994.

Net income amounted to $572.2 million in the first three months of 1995 and $505.6 million in the same period of 1994.

CAPITAL RESOURCES

At March 31, 1995 and December 31, 1994, AIG had total capital funds of $17.05 billion and $16.42 billion, respectively and total borrowings of $17.63 billion and $17.52 billion, respectively.

Total borrowings at March 31, 1995 and December 31, 1994 were as follows:

(in thousands)

	1995	1994
Borrowings under Obligations of Guaranteed Investment Agreements (GIA) -- AIGFP	$ 5,374,000	$ 5,535,300
Commercial Paper:		
Funding	1,491,200	1,211,300
ILFC	2,164,900*	1,960,600*
AICCO	609,700	617,700
AIGFP	28,400	--
Total	4,294,200	3,789,600
Medium Term Notes:		
ILFC	2,233,500*	1,999,500*
AIG	148,000	155,000
Total	2,381,500	2,154,500
Notes and Bonds Payable:		
ILFC	3,150,000*	2,950,000*
AIGFP	1,029,100	1,048,100
AIG: Lire bonds	159,100	159,100
Zero coupon notes	67,600	65,800
Total	4,405,800	4,223,000
Loans and Mortgages Payable:		
AIGTG	102,400	890,800
ILFC	805,700*	678,600*
AIG	267,000	247,700
Total	1,175,100	1,817,100
Total Borrowings	17,630,600	17,519,500
Borrowings not guaranteed by AIG	8,354,100	7,588,700
Matched GIA borrowings	5,374,000	5,535,300
	13,728,100	13,124,000
Remaining borrowings of AIG	$ 3,902,500	$ 4,395,500

*AIG does not guarantee or support these borrowings.

GIAs usually serve as the primary source of proceeds for AIGFP's investments 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 commercial paper is subject to the approval of AIG's Board of Directors. ILFC, A.I. Credit Corp. (AICCO) and AIGFP issue commercial paper for the funding of their own operations. AIG does not guarantee AICCO's or ILFC's commercial paper. However, AIG has entered into an agreement in support of AICCO's commercial paper. AIG guarantees AIGFP's commercial paper. (See also the discussion under "Derivatives" herein.)

During 1994, AIG and Funding 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 represent a consolidation of domestic and international bilateral lines of credit and can be used for general corporate purposes. The Facilities also provide backup for AIG's commercial paper programs administered by Funding. At March 31, 1995, there were no borrowings outstanding under either of the Facilities, nor were any borrowings outstanding during the first three months of 1995.

During the first three months of 1995, ILFC increased the aggregate principal amount outstanding of its medium term and term notes to $5.38 billion at March 31, 1995, a net increase of $434.0 million. At March 31, 1995, ILFC had approximately $1.0 billion in aggregate principal amount of debt securities registered for issuance from time to time. The cash used to purchase flight equipment is derived primarily from the proceeds of ILFC's debt financing. The primary sources for the repayment of this debt and the interest expense thereon are the lease receipts received and proceeds from the sale of flight equipment. During the first three months of 1995, ILFC obtained net financing of approximately $770 million and sold $100 million of Market Auction Preferred Stock (MAPS) in February, 1995. These proceeds were used for the acquisition of flight equipment costing $1.06 billion. Additional funds were provided by operating cash flow and the sale of flight equipment. (See also the discussions under "Operational Review" and "Liquidity" herein.)

During the first three months of 1995, AIG did not issue any medium term notes and $7.0 million of previously issued notes matured. At March 31, 1995, AIG had $247.0 million in aggregate principal amount of debt securities registered for issuance from time to time. (See also the discussion under "Derivatives" herein.)

AIG's capital funds have increased $625.0 million in the first three months of 1995. Unrealized appreciation of investments, net of taxes, increased $41.0 million, primarily resulting from the stability of domestic interest rates and its effect on the market values of bonds worldwide. As a result of adopting Financial Accounting Standards No. 115 "Accounting for Certain Investments on Debt and Equity Securities", unrealized appreciation of investments, net of taxes, is now subject to increased volatility resulting from the changes in the market value of bonds available for sale. The cumulative translation adjustment loss, net of taxes, decreased $44.9 million as a result of the general weakness of the U.S. dollar against most major currencies. Retained earnings increased $535.8 million, resulting from net income less dividends.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by statutory authorities. AIG has in the past reinvested most of its unrestricted earnings in its operations and believes such continued reinvestment in the future will be adequate to meet any foreseeable capital needs. However, AIG may choose from time to time to raise additional funds through the issuance of additional securities. At March 31, 1995, 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.)

LIQUIDITY

At March 31, 1995, AIG's consolidated invested assets included approximately $2.10 billion of cash and short-term investments. Consolidated net cash provided from operating activities in the first three months of 1995 amounted to approximately $3.00 billion.

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

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

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance pretax operating cash flow is derived from two sources, underwriting operations and investment operations. In the aggregate, AIG's insurance operations generated approximately $2.5 billion in pretax cash flow during the first three months of 1995. Cash flow includes periodic premium collections, including policyholders' contract deposits, paid loss recoveries less reinsurance premiums, losses, benefits, acquisition and operating expenses paid. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. AIG's insurance investment operations generated approximately $900 million in investment income cash flow during the first three months of 1995. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains.

The combined insurance pretax operating cash flow coupled with the cash and short-term investments of $1.70 billion provided the insurance operations with a significant amount of liquidity. This liquidity is available to purchase high quality and diversified fixed income securities and to a lesser extent marketable equity securities and to provide mortgage loans on real estate, policy and collateral and guaranteed loans. With this liquidity coupled with proceeds of approximately $3.9 billion from the maturities, sales and redemptions of fixed income securities and from the sales of marketable equity securities, AIG purchased approximately $6.2 billion of fixed income securities and marketable equity securities and granted $1.2 billion of mortgage loans on real estate, policy and collateral loans during the first three months of 1995.

During 1995, AIG expects to receive approximately $1 billion for the redemption of held to maturity municipal bonds. During the first three months of 1995, approximately $250 million of these securities were redeemed. Prior to redemption, the yield on these bonds approximates 8 percent. The current estimate of the yield on the reinvestment of the proceeds in bonds with similar characteristics would approximate 6.0 percent. AIG does not anticipate that these redemptions will have a significant effect on AIG's general investment income, operations, financial condition or liquidity.

The following table is a summary of AIG's invested assets by significant segment, including investment income due and accrued and real estate, at March 31, 1995 and December 31, 1994:

(dollars in thousands)

	MARCH 31, 1995		December 31, 1994	
	INVESTED ASSETS	PERCENT OF TOTAL	Invested Assets	Percent of Total
General insurance	$24,351,200	27.6%	$23,873,000	30.2%
Life insurance	29,501,400	33.4	26,690,100	33.8
Financial services	33,982,700	38.5	27,920,300	35.4
Other	476,800	0.5	491,500	0.6
Total	$88,312,100	100.0%	$78,974,900	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 March 31, 1995 and December 31, 1994:

(dollars in thousands)

MARCH 31, 1995	GENERAL	LIFE	TOTAL	PERCENT OF TOTAL	PERCENT DISTRIBUTION DOMESTIC	FOREIGN
Fixed Maturities:						
Available for sale, at market value(a)	$ 5,286,900	$18,745,300	$24,032,200	44.6%	31.8%	68.2%
Held to maturity, at amortized cost(b)	14,146,900	--	14,146,900	26.3	100.0	--
Equity securities, at market value(c)	2,554,100	2,150,900	4,705,000	8.7	28.1	71.9
Mortgage loans on real estate, policy and collateral loans	30,600	5,647,900	5,678,500	10.5	50.5	49.5
Short-term investments, including time deposits, and cash	716,800	982,900	1,699,700	3.2	20.1	79.9
Real estate	346,000	669,000	1,015,000	1.9	17.8	82.2
Investment income due and accrued	429,100	468,000	897,100	1.7	53.8	46.2
Other invested assets	840,800	837,400	1,678,200	3.1	51.8	48.2
Total	$24,351,200	$29,501,400	$53,852,600	100.0%	51.7%	48.3%

(a)Includes $178,400 of bonds trading securities, at market value.
(b)Includes $437,600 of preferred stock, at amortized cost.
(c)Includes $55,000 of preferred stock, at market value.

(dollars in thousands)

December 31, 1994	General	Life	Total	Percent of Total	Percent Distribution Domestic	Foreign
Fixed Maturities:						
Available for sale, at market value(a)	$ 4,995,800	$16,890,700	$21,886,500	43.3%	32.2%	67.8%
Held to maturity, at amortized cost(b)	13,454,300	--	13,454,300	26.6	100.0	--
Equity securities, at market value(c)	2,799,700	2,090,400	4,890,100	9.7	30.4	69.6
Mortgage loans on real estate, policy and collateral loans	27,700	4,534,600	4,562,300	9.0	43.1	56.9
Short-term investments, including time deposits, and cash	954,900	1,213,000	2,167,900	4.3	27.6	72.4
Real estate	364,100	648,900	1,013,000	2.0	18.0	82.0
Investment income due and accrued	446,700	471,300	918,000	1.8	57.5	42.5
Other invested assets	829,800	841,200	1,671,000	3.3	50.9	49.1
Total	$23,873,000	$26,690,100	$50,563,100	100.0%	51.7%	48.3%

(a)Includes $164,000 of bonds trading securities, at market value.
(b)Includes $412,500 of preferred stock, at amortized cost.
(c)Includes $61,900 of preferred stock, at market value.

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

At March 31, 1995, approximately 57 percent of the fixed maturity investments were domestic securities. Approximately 42 percent of such domestic securities were rated AAA, approximately 4 percent were below investment grade and approximately 2 percent were 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. However, similar credit quality rating services are not available in all overseas locations. Thus, AIG annually reviews the credit quality of the nonrated fixed income investments, including mortgages, in its foreign portfolio. AIG applies a scale similar to that of Moody's and S&P to the rating of these securities. Coupling the ratings of this internal review with those of the independent agencies indicates that approximately 42 percent of the foreign fixed income investments were rated AAA, less than one percent were deemed below investment grade and approximately 4 percent were not rated at December 31, 1994. These percent distributions have not significantly changed at March 31, 1995.

Although AIG's fixed income insurance portfolios contain only minor amounts of securities below investment grade, potentially any fixed income security is subject to downgrade for a variety of reasons subsequent to any balance sheet date. There have been no significant downgrades as at May 1, 1995.

At March 31, 1995, approximately 5 percent of the fixed maturities portfolio were Collateralized Mortgage Obligations (CMOs). All of the CMOs were investment grade and approximately 86 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.)

Short-term investments represent amounts invested in various internal and external money market funds, time deposits and cash. The $468.2 million reduction in short-term investments and cash since December 31, 1994 resulted from the redeployment of funds to purchase fixed maturities both domestically and overseas.

Mortgage loans on real estate, policy, collateral and guaranteed loans comprised 10.5 percent of AIG's insurance invested assets at March 31, 1995. AIG's insurance holdings of real estate mortgages amounted to $1.80 billion of which 31.8 percent was domestic. At March 31, 1995, no domestic mortgages and only a nominal amount of foreign mortgages were in default. At March 31, 1995, AIG's insurance holdings of collateral loans amounted to $684.1 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 $2.23 billion at December 31, 1994 to $3.19 billion at March 31, 1995, with $900 million of this increase relating to the domestic corporate-owned life insurance product.

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.

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 March 31, 1995 and December 31, 1994. (See also the discussions under "Operational Review," "Capital Resources" and "Derivatives" herein.)

(dollars in thousands)

	MARCH 31, 1995 INVESTED ASSETS	PERCENT OF TOTAL	December 31, 1994 Invested Asset	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	$11,645,900	34.3%	$10,723,500	38.4%
Unrealized gain on interest rate and currency swaps, options and forward transactions	6,716,200	19.8	4,650,700	16.7
Securities available for sale, at market value	3,951,200	11.6	3,796,800	13.6
Trading securities, at market value	3,499,800	10.3	2,483,600	8.9
Securities purchased under agreements to resell, at contract value	1,468,200	4.3	1,209,400	4.3
Trade receivables	3,934,300	11.6	2,629,700	9.4
Spot commodities, at market value	1,171,800	3.4	916,800	3.3
Other, including short-term investments	1,595,300	4.7	1,509,800	5.4
Total	$33,982,700	100.0%	$27,920,300	100.0%

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 lease receipts received and proceeds from the sale of flight equipment. During the first three months of 1995, ILFC obtained net financing of approximately $770 million and proceeds of $100 million from the sale of MAPS for the acquisition of flight equipment costing $1.06 billion. Additional funds were provided by operating cash flow and the sale of flight equipment.

AIGFP's derivative transactions are carried at market value or at estimated fair value when market prices are not readily available. These values represent assessments of the present value of expected future cash flows. The recorded values of these transactions may be less than the values that might be realized, if AIGFP were to sell or close out the transactions prior to maturity. AIGFP reduces its economic risk exposure through similarly valued offsetting transactions including swaps, trading securities, forwards and futures. AIG believes that the impact of 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. As the GIA and term borrowings combined net balances have declined since December 31, 1994, 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. (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 March 31, 1995, the average credit rating to this portfolio was AA as determined through rating agencies or internal review. There were no securities deemed below investment grade. There have been no significant downgrades through May 1, 1995. Securities purchased under agreements to resell are treated as collateralized transactions. AIGFP generally takes possession of securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring 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 acts as principal in certain foreign exchange, interest rate, precious and base metals, petroleum and natural gas trading activities. AIGTG owns inventories in the commodities in which it trades and may reduce the exposure to market risk through the use of forwards, futures and option contracts. AIGTG uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movement in interest rates, exchange rates and commodity prices. AIGTG supports its trading activities largely through trade payables, 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 stock, bond, commodity or other asset, or some 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 exchanges and settled 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 or assigned to another counterparty.

Through AIGFP and AIGTG, AIG participates in the derivatives dealer market acting primarily as principal. In these derivative operations AIG structures transactions which generally permit its counterparties to enter into transactions with respect to interest and exchange rate changes, to prices of securities and to certain commodities and financial or commodity indices. All significant derivatives activities are conducted through AIGFP and AIGTG.

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

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

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).

AIGFP does not seek to manage the market risk of each of its individual 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 market risk as deemed appropriate by AIGFP 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 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 or through on-line computer systems. In addition, these positions are reviewed by AIGTG 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 may determine to adjust AIGTG's risk profile.

AIGTG attempts to secure reliable current market prices, such as published prices or third party quotes, to value its derivatives. Where such prices are not available, AIGTG uses an internal methodology which includes interpolation or extrapolation from verifiable prices nearest to the dates of the transactions. The methodology may reflect interest and exchange rates, 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 March 31, 1995 were as follows:

(in thousands)

	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	BALANCE SHEET AMOUNT
Securities available for sale, at market value	$ 240,600	$ 236,800	$3,951,200
Unrealized gain/loss on interest rate and currency swaps, options and forward transactions	6,716,200	5,780,600	--
Trading securities, at market value	--	--	3,499,800
Securities sold but not yet purchased, principally obligations of the U.S. government and government agencies, at market value	--	--	318,000
Trade receivables(a)	7,358,800	4,319,600	3,934,300
Spot commodities, at market value(b)	354,200	47,400	1,171,800
Trade payables	--	2,935,100	4,603,200
Spot commodities sold but not yet purchased, at market value	35,500	175,500	609,700

(a)The net replacement value with respect to futures and forward contracts of AIGTG at March 31, 1995 was $3.02 billion.

(b)The net replacement value with respect to purchased option contracts of AIGTG at March 31, 1995 was $494.3 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 March 31, 1995, the unrealized gains and losses remaining after benefit of the offsets were $14.0 million and $10.2 million, respectively.

AIGFP carries its derivatives at market or estimated fair value, whichever is appropriate. Because of limited liquidity 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 sold but not yet purchased 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.

AIGTG acts as principal in certain foreign exchange, interest rate, precious and base metals, petroleum and natural gas trading activities. 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 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 and margin agreements.

The significant majority of AIGFP's transactions are contracted and documented under master netting agreements that provide for set-off and close out netting in the event of default. 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 derivatives portfolio at March 31, 1995. The notional amounts used to express the extent of AIGFP's involvement in derivatives transactions represent a standard of measurement of the volume of AIGFP'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 foreign exchange forwards and exchange traded futures and options contracts are determined by the contractual agreements.

AIGFP extensively uses legally enforceable master closeout netting agreements. Thus, contracts subject to such arrangements permit AIGFP to offset its receivables from and payables to the same counterparty. As a result, the net replacement value represents the net sum of estimated positive fair values after the application of such agreements and collateral held. The net replacement value most closely represents the net credit risk to AIGFP or the maximum amount exposed to potential loss.

The following table presents AIGFP's derivatives portfolio by maturity and type of derivative at March 31, 1995 and December 31, 1994:

(in thousands)

	REMAINING LIFE					
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS	TOTAL 1995	Total 1994
Interest rate, currency and equity/commodity swaps and swaptions:						
Notional amount:						
Interest rate swaps	$10,475,000	$61,705,000	$33,431,000	$ 9,002,000	$114,613,000	$105,581,000
Currency swaps	2,099,000	9,023,000	4,753,000	1,544,000	17,419,000	18,260,300
Equity/commodity swaps	1,999,000	67,000	--	25,000	2,091,000	817,000
Swaptions	754,000	4,509,000	2,293,000	1,369,000	8,925,000	9,060,000
Total	$15,327,000	$75,304,000	$40,477,000	$11,940,000	$143,048,000	$133,718,300
Futures, options and forward contracts:						
Exchange traded futures and options contracts contractual amount*	$18,852,400	--	--	--	$ 18,852,400	$ 13,182,900
Over the counter forward contracts contractual amount	$ 2,667,200	$ 67,000	--	--	$ 2,734,200	$ 2,048,700

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

At March 31, 1995, 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, OPTIONS AND FORWARD CONTRACTS	TOTAL
Counterparty credit quality:			
AAA	$1,596,900	$106,200	$1,703,100
AA	2,205,400	100,300	2,305,700
A	1,559,600	10,900	1,570,500
BBB	1,096,300	--	1,096,300
Below investment grade	15,300	--	15,300
Not externally rated -- exchanges	--	25,300	25,300
Total	$6,473,500	$242,700	$6,716,200

At March 31, 1995, 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, OPTIONS AND FORWARD CONTRACTS	TOTAL
Non-U.S. banks	$2,648,100	$115,100	$2,763,200
Insured municipalities	398,900	--	398,900
U.S. industrials	530,500	--	530,500
Governmental	991,000	--	991,000
Non-U.S. financial service companies	37,000	--	37,000
Non-U.S. industrials	919,900	--	919,900
Special purpose	16,100	--	16,100
U.S. banks	180,900	25,400	206,300
U.S. financial service companies	494,100	76,900	571,000
Supranationals	257,000	--	257,000
Exchanges	--	25,300	25,300
Total	$6,473,500	$242,700	$6,716,200

The following tables provide the notional and contractual amounts of AIGTG's derivatives portfolio at March 31, 1995. In addition, the estimated positive fair values associated with the derivatives portfolio are also provided and include a maturity profile for the March 31, 1995 balances based upon the expected timing of the future cash flows.

The notional amounts used to express the extent of AIGTG's involvement in derivatives transactions represent a standard of measurement of the volume of AIGTG's swaps business. Notional amount is not a quantification of the market or credit risks of the positions and is not necessarily 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 foreign exchange forwards and exchange traded futures and options contracts are determined by the contractual agreements.

The gross replacement values presented represent the sum of the estimated fair values of all of AIGTG's derivatives contracts at March 31, 1995. 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 value most closely represents the net credit risk to AIGTG or the maximum amount exposed to potential loss.

The following tables present AIGTG's derivatives portfolio and associated credit exposure, if applicable, by maturity and type of derivative at March 31, 1995 and December 31, 1994:

(in thousands)

	REMAINING LIFE					
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS	TOTAL 1995	Total 1994
Futures and forward contracts and interest swaps:						
Exchange traded futures contracts contractual amount(a)	$ 23,195,400	$ 3,449,000	$ 155,600	$ --	$ 26,800,000	$ 21,504,100
Over the counter forward contracts contractual amount(b)	$221,527,900	$11,777,500	$ 1,391,000	$ 2,500	$234,698,900	$191,178,000
Credit exposure for over the counter forwards:						
Gross replacement value	$ 6,693,600	$ 577,100	$ 81,100	$ 6,900	$ 7,358,700	$ 3,531,000
Master netting arrangements	(3,891,800)	(301,500)	(61,700)	(800)	(4,255,800)	(1,577,500)
Collateral	(78,500)	--	--	--	(78,500)	(82,700)
Net replacement value(c)	$ 2,723,300	$ 275,600	$ 19,400	$ 6,100	$ 3,024,400	$ 1,870,800

(a) Exchange traded futures are not deemed to have significant credit exposure as the exchanges guarantee that every contract will be properly settled.

(b) Includes interest rate swaps with notional amounts of approximately $2.49 billion and $549.0 million at March 31, 1995 and December 31, 1994, respectively.

(c) The net replacement values with respect to futures and forward contracts are presented as a component of trade receivables in the accompanying balance sheet.

(in thousands)

	REMAINING LIFE					
	WITHIN ONE YEAR	AFTER ONE YEAR BUT WITHIN FIVE YEARS	AFTER FIVE YEARS BUT WITHIN TEN YEARS	AFTER TEN YEARS	TOTAL 1995	Total 1994
Option contracts:						
Contractual amounts for purchased options:						
Exchange traded(a)	$ 2,592,600	$ 349,000	--	--	$ 2,941,600	$ 1,410,600
Over the counter	16,468,600	2,502,300	--	--	18,970,900	13,826,600
Total	$ 19,061,200	$ 2,851,300	--	--	$ 21,912,500	$ 15,237,200
Credit exposure for over the counter purchased options:						
Gross replacement value	$ 589,400	$ 120,500	$ 2,800	--	$ 712,700	$ 369,500
Master netting arrangements	(176,800)	(37,800)	--	--	(214,600)	(71,800)
Collateral	(3,800)	--	--	--	(3,800)	(22,600)
Net replacement value(b)	$ 408,800	$ 82,700	$ 2,800	--	$ 494,300	$ 275,100
Contractual amounts for sold options(c)	$ 19,023,500	$ 2,584,600	--	--	$ 21,608,100	$ 14,157,900

(a) Exchange traded options are not deemed to have significant credit exposure as the exchanges guarantee that every option will be properly settled.

(b) The net replacement value with respect to purchased options is presented as a component of spot commodities, at market value in the accompanying balance sheet.

(c) Options obligate AIGTG to buy or sell the underlying item if the option purchaser chooses to exercise. The amounts do not represent credit exposures.

At March 31, 1995, the counterparty credit quality by derivative product with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE		
	FUTURES AND FORWARD CONTRACTS AND INTEREST RATE SWAPS	OVER THE COUNTER PURCHASED OPTIONS	TOTAL
Counterparty credit quality:			
AAA	$ 467,100	$ 68,000	$ 535,100
AA	967,800	211,000	1,178,800
A	784,600	112,600	897,200
BBB	51,500	2,000	53,500
Below investment grade	34,200	13,800	48,000
Not externally rated*	719,200	86,800	806,000
Total	$ 3,024,400	$ 494,200	$3,518,600

*Includes $321.1 million due from exchanges.

At March 31, 1995, the counterparty breakdown by industry with respect to the net replacement value of AIGTG's derivatives portfolio was as follows:

(in thousands)

	NET REPLACEMENT VALUE		
	FUTURES AND FORWARD CONTRACTS AND INTEREST RATE SWAPS	OVER THE COUNTER PURCHASED OPTIONS	TOTAL
Non-U.S. banks	$ 1,323,200	$ 210,500	$1,533,700
U.S. industrials	273,500	26,000	299,500
Governmental	120,000	33,300	153,300
Non-U.S. financial service companies	77,200	24,000	101,200
Non-U.S. industrials	107,900	35,800	143,700
U.S. banks	518,600	55,900	574,500
U.S. financial service companies	282,900	108,700	391,600
Exchanges	321,100	--	321,100
Total	$ 3,024,400	$ 494,200	$3,518,600

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 purchased 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, trade payables, 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.

Over the counter derivatives dealers have drafted a code of conduct to provide standards for their industry. The alternative to self-regulation is federal regulation. AIG supports self-regulation and expects to adhere to promulgated standards.

RECENT DEVELOPMENTS

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

Standards for the life RBC formula and a model act have been approved by regulators and were effective with the 1993 statutory financial statements. At December 31, 1994, the adjusted capital of each of AIG's four domestic life companies exceeded each of their RBC standards by considerable margins. There has been no significant change during the first three months of 1995.

RBC standards for property and casualty insurers were finalized in principle in December 1993 and were effective with the 1994 statutory financial statements. At December 31, 1994, the adjusted capital of each of AIG's domestic general companies exceeded each of their RBC standards by considerable margins. Additionally, no AIG company is on any regulatory or similar "watch list". There has been no significant change during the first three months of 1995.

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

Pursuant to its agreement with 20th Century Industries (20th Century), a low-cost provider of mass marketed auto insurance in California, AIG invested an additional $20 million in the preferred stock of 20th Century in March 1995.

ACCOUNTING STANDARDS

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to Be Disposed Of" (FASB 121). This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and an impairment loss must be recognized.

FASB 121 is effective for AIG commencing January 1, 1996. AIG does not anticipate adopting FASB 121 before that date. AIG believes that the adoption of this statement will have an immaterial impact on the results of operations, financial condition or liquidity.

PART II -- OTHER INFORMATION

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

(a) Exhibits
See accompanying Exhibit Index.

(b) During the three months ended March 31, 1995, there was a current report on Form 8-K dated February 23, 1995 filed, which reported the Press Release of that date with respect to the earnings of AIG for the year ended December 31, 1994.

SIGNATURES

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

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/s/ HOWARD I. SMITH

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

Dated: May 12, 1995

EXHIBIT INDEX

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

EXHIBIT 11

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1994
Average outstanding shares used in the computation of per share earnings:		
Common stock(a)	337,391	337,391
Common stock in treasury(a)	(21,493)	(19,935)
	315,898	317,456
Net income (applicable to common stock)	$572,156	$505,618
Net income per share	$ 1.81	$ 1.59

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(a) The effects of all other common stock equivalents are not significant.

EXHIBIT 12

AMERICAN INTERNATIONAL GROUP, INC.

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

	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1994
Income before income taxes	$ 785,794	$ 678,410
Less -- Equity income of less than 50% owned persons	18,301	8,408
Add -- Dividends from less than 50% owned persons	1,149	971
	768,642	670,973
Add --		
Fixed charges	369,363	358,691
Less --		
Capitalized interest	13,912	11,345
Income before income taxes and fixed charges	$1,124,093	$1,018,319
Fixed charges:		
Interest costs	$ 349,443	$ 341,983
Rent expense *	19,920	16,708
Total fixed charges	$ 369,363	$ 358,691
Ratio of earnings to fixed charges	3.04	2.84

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* The proportion deemed representative of the interest factor.

The ratio shown is significantly affected as a result of the inclusion of the fixed charges and operating results of AIG Financial Products Corp. and its subsidiaries (AIGFP). AIGFP structures borrowings through guaranteed investment agreements and engages in other complex financial transactions, including interest rate and currency swaps. In the course of its business, AIGFP enters into borrowings that are primarily used to purchase assets that yield rates greater than the rates on the borrowings with the intent of earning a profit on the spread and to finance the acquisition of securities utilized to hedge certain transactions. The pro forma ratios of earnings to fixed charges, which exclude the effects of the operating results of AIGFP, are 4.58 and 5.63 for 1995 and 1994, 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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3-MOS
DEC-31-1995
JAN-01-1995
MAR-31-1995
23,951,195
13,709,332
14,219,100
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125,352,552
50,950,604
6,510,482
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9,901,574
12,256,656
843,477
0
0
16,203,161
125,352,552
4,553,597
882,105
19,607
(13,249)
3,731,887
386,347
638,446
785,794
213,638
572,156
0
0
0
572,156
1.81
1.81
18,418,900
2,170,200
0
499,100
1,286,000
18,804,000
0