AMERICAN INTERNATIONAL GROUP INC
Form 10-K/A
March 16, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2004
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission file number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $2.50 Per Share	**New York Stock Exchange, Inc.**

Securities registered pursuant to Section 12(g) of the Act:

Title of each class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold as of June 30, 2004 (the last business day of the registrant s most recently completed second fiscal quarter), was approximately $148,570,190,000.

As of March 31, 2005, there were outstanding 2,594,907,032 shares of Common Stock, $2.50 par value per share, of the registrant.

Explanatory Note

Overview. This amendment to the Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Annual Report on Form 10-K/ A) is being filed for the purpose of amending Items 1 and 3 of Part I, Items 6, 7, 7A, 8 and 9A of Part II and Item 15 of Part IV of the Annual Report on Form 10-K for the year ended December 31, 2004 of American International Group, Inc. (AIG), which was originally filed on May 31, 2005 (2004 Annual Report on Form 10-K), as well as Item 1 of Part I of AIG s filings on Forms 10-Q/ A and 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2004. All of the amendments are being filed to reflect the restatements of AIG s financial results described herein. All other Items of the 2004 Annual Report on Form 10-K, as well as all other Items of the original filings on Forms 10-Q/ A and 10-Q for the quarterly periods ended March 31, June 30 and September 30, 2004, are unaffected by the changes described above and have been omitted from this amendment.

Information in this 2004 Annual Report on Form 10-K/ A is generally stated as of December 31, 2004 and generally does not reflect any subsequent information or events other than the restatements described below and the fourth quarter 2004 changes in estimates described in Management s Discussion and Analysis of Financial Condition and Results of Operations, except that certain forward looking statements throughout this 2004 Annual Report on Form 10-K/ A, Certain Factors Affecting AIG s Business in Item 1 of Part I, Legal Proceedings in Item 3 of Part I and Controls and Procedures in Item 9A of Part II have been revised to reflect events and developments subsequent to December 31, 2004. Information regarding subsequent periods with respect to AIG will be contained in the Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Annual Report on Form 10-K) and other filings with the Securities and Exchange Commission (SEC). This filing should be read and considered in conjunction with such filings.

First Restatement. In connection with the preparation of AIG s consolidated financial statements included in AIG s 2004 Annual Report on Form 10-K, AIG s management initiated an internal review of its books and records, which was substantially expanded in mid-March 2005 with the oversight of the Audit Committee of the Board of Directors of AIG. The review spanned AIG s major business units globally, and included a number of transactions from 2000 to 2004. As disclosed in the 2004 Annual Report on Form 10-K, as a result of the findings of the internal review, together with the results of investigations by outside counsel at the request of AIG s Audit Committee and in consultation with PricewaterhouseCoopers LLP, AIG s independent registered public accounting firm, AIG restated its consolidated financial statements and financial statement schedules for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 (the First Restatement).

AIG disclosed in its 2004 Annual Report on Form 10-K that it had identified a number of material weaknesses in internal control over financial reporting, including controls over certain balance sheet reconciliations, controls over the accounting for certain derivative transactions and controls over income tax accounting. AIG has been and continues to be actively engaged in the implementation of remediation efforts to address all of these material weaknesses in internal controls over financial reporting. See also Controls and Procedures Management s Report on Internal Control Over Financial Reporting.

Second Restatement. As announced on November 9, 2005, AIG identified certain errors, the preponderance of which were identified during the remediation of the material weaknesses in internal controls over financial reporting referred to above, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133), reconciliation of certain balance sheet accounts and income tax accounting. AIG also announced it was correcting errors that were identified since the First Restatement, including those relating to the accounting for certain payments received from aircraft and engine manufacturers by International Lease Finance Corporation (ILFC), which were originally corrected in AIG s Form 10-Q for the quarter ended June 30, 2005 (June 2005 Form 10-Q). The adjustments to correct the foregoing errors are referred to in this 2004 Annual Report on Form 10-K/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal controls over financial reporting referred to above, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in the Domestic Brokerage Group (DBG). As a result, AIG is including further adjustments (the Additional Adjustments) in its restatement of the consolidated financial statements and financial statement schedules for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and will restate the first three quarters of 2005. The Initial Adjustments and the Additional Adjustments are referred to herein as the Second Restatement. AIG s quarterly report on Form 10-Q for the quarter ended September 30, 2005 (September 2005 Form 10-Q) will not be amended because the Additional Adjustments to the financial statements included therein are not material to those financial statements.

The financial information that is included in this 2004 Annual Report on Form 10-K/A has been restated as part of

the First Restatement (as previously filed in the 2004 Annual Report on Form 10-K on May 31, 2005) and the Second Restatement (the Restatements).

Subsequent Events. Prior to the date of this filing, AIG has announced subsequent events, which will be described fully in AIG s 2005 Annual Report on Form 10-K and other filings with the SEC. Other than as included in Note 25 of Notes to Consolidated Financial Statements, the financial information contained in this 2004 Annual Report on Form 10-K/A does not reflect the subsequent events described below.

On February 9, 2006, AIG announced that it has reached a resolution of claims and matters under investigation with the United States Department of Justice (DOJ), the SEC, the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). These settlements will result in an after-tax charge of approximately $1.15 billion to be recorded in the fourth quarter of 2005.

The settlements resolve outstanding litigation filed by the SEC, NYAG and DOI against AIG and conclude negotiations with these authorities and the DOJ in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments.

As a result of these settlements, AIG will make payments totaling approximately $1.64 billion. A substantial portion of the monies will be available to resolve claims asserted in various regulatory and civil proceedings, including shareholder lawsuits.

As part of these settlements, AIG has agreed to retain for a period of three years an independent consultant who will conduct a review that will include the adequacy of AIG s internal controls over financial reporting and the remediation plan that AIG has implemented as a result of its own internal review.

The settlements are described more fully under Item 3. Legal Proceedings.

In addition, as announced previously, AIG commissioned Milliman Inc. (Milliman) to provide an independent, comprehensive review of the loss reserves of AIG s principal property-casualty insurance operations, including an independent ground up study of AIG s asbestos and environmental (A&E) exposures. The Milliman review encompassed nearly all of AIG s carried loss reserves, other than those pertaining to the operations of Transatlantic Holdings, Inc. and 21st Century Insurance Group.

After carefully considering the results of the Milliman review and AIG s own actuarial analyses, AIG will take a fourth quarter 2005 after-tax charge to net income of approximately $1.2 billion, relating to an increase to its net reserve for losses and loss expenses of approximately $1.8 billion, or approximately 3 percent of its total General Insurance net reserve for losses and loss expenses. This net reserve increase comprises approximately $960 million for non-A&E reserves and approximately $870 million for A&E reserves.

Loss reserves for DBG for non-A&E exposures will increase by approximately $1.4 billion. The reserve increase is attributable to adverse development from the directors and officers liability, excess casualty and excess workers compensation classes of business, including a provision for commuted reinsurance. Together, these three classes of business experienced approximately $4 billion of adverse development in 2005, primarily related to 2002 and prior accident years, offset by favorable development for the majority of DBG s classes of business for accident years 2003 through 2005. Additionally, DBG will increase loss reserves for A&E by approximately $700 million, including a provision for insolvent reinsurers and commuted reinsurance.

Loss reserves for AIG s Foreign General business unit will be reduced by approximately $280 million. The net reduction of reserves in Foreign General reflects a reduction of approximately $450 million in non-A&E reserves, primarily related to financial lines, crisis management and property classes of business, partially offset by an increase of approximately $170 million in A&E reserves.

AIG s estimate of its total expected losses relating to third quarter 2005 catastrophe events included in the September 2005 Form 10-Q totaled approximately $1.6 billion after-tax. AIG also expects to record a fourth quarter after-tax charge of approximately $150 million, an increase of approximately 9.4 percent from the previous estimate, relating to adverse development from third quarter 2005 catastrophe events. In addition, AIG expects its after-tax insurance related losses from Hurricane Wilma, net of reinsurance recoverables and including net reinstatement premium costs, to be approximately $400 million for the fourth quarter 2005.

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PART I

ITEM 1. Business

American International Group, Inc. (AIG), a Delaware corporation, is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG s primary activities include both General Insurance and Life Insurance & Retirement Services operations. Other significant activities include Financial Services and Asset Management. The principal General Insurance company subsidiaries are American Home Assurance Company (American Home), National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), New Hampshire Insurance Company (New Hampshire), Lexington Insurance Company (Lexington), The Hartford Steam Boiler Inspection and Insurance Company (HSB), Transatlantic Reinsurance Company, American International Underwriters Overseas, Ltd. (AIUO) and United Guaranty Residential Insurance Company. Significant Life Insurance & Retirement Services operations include those conducted through American Life Insurance Company (ALICO), American International Reinsurance Company, Ltd. (AIRCO), American International Assurance Company, Limited together with American International Assurance Company (Bermuda) Limited (AIA), Nan Shan Life Insurance Company, Ltd. (Nan Shan), The Philippine American Life and General Insurance Company (Philamlife), AIG Star Life Insurance Co., Ltd. (AIG Star Life), AIG Edison Life Insurance Company (AIG Edison Life), AIG Annuity Insurance Company (AIG Annuity), the AIG American General Life Companies (AIG American General), American General Life and Accident Insurance Company (AGLA), The United States Life Insurance Company in the City of New York (USLIFE), The Variable Annuity Life Insurance Company (VALIC), SunAmerica Life Insurance Company (SunAmerica Life) and AIG SunAmerica Life Assurance Company. AIG s Financial Services operations are conducted primarily through International Lease Finance Corporation (ILFC), AIG Financial Products Corp. and AIG Trading Group Inc. (AIGTG) and their respective subsidiaries (collectively referred to as AIGFP), and American General Finance, Inc. and its subsidiaries (AGF). AIG s Asset Management operations include AIG SunAmerica Asset Management Corp. (SAAMCo) and AIG Global Asset Management Holdings Corp. (formerly known as AIG Global Investment Group, Inc.) and its subsidiaries and affiliated companies (AIG Global Investment Group). For information on AIG s business segments, see Note 3 of Notes to Consolidated Financial Statements.

All financial information herein gives effect to the Restatements and adjustments for changes in estimates described in Management s Discussion and Analysis of Financial Condition and Results of Operations. As of March 31, 2005, beneficial ownership of approximately 12.0 percent, 2.0 percent and 1.8 percent of AIG common stock, was held by Starr International Company, Inc. (SICO), The Starr Foundation and C.V. Starr & Co., Inc. (Starr), respectively. For a discussion of AIG s current relationship with Starr and SICO, see Certain Factors Affecting AIG s Business The Relationships Between AIG and Starr and SICO.

At December 31, 2004, AIG and its subsidiaries had approximately 92,000 employees.

AIG s Internet address for its corporate website is *www.aigcorporate.com*. AIG makes available free of charge, through the Investor Information section of AIG s corporate website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). AIG also makes available on its corporate website copies of its charters for its Audit, Nominating and Corporate Governance and Compensation Committees, as well as its Corporate Governance Guidelines, Director Independence Standards and Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics.

Throughout this 2004 Annual Report on Form 10-K/A, AIG presents its operations in the way it believes will be most meaningful, as well as most transparent. Certain of the measurements used by AIG management are non-GAAP financial measures under SEC rules and regulations. Statutory underwriting profit (loss) and combined ratios are determined in accordance with accounting principles prescribed by insurance regulatory authorities. For an explanation of why AIG management considers these non-GAAP measures useful to investors, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following table shows the general development of the business of AIG on a consolidated basis, the contributions made to AIG s consolidated revenues and operating income and the assets held, in the periods indicated, by its General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management operations and other realized capital gains (losses). For additional information, see Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 2 and 3 of Notes to Consolidated Financial Statements. AIG has restated its financial statements for 2004, 2003, 2002, 2001 and 2000. See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements for a description of the adjustments included in the Restatements and Selected Financial Data and Note 2 of Notes to Consolidated Financial Statements for a reconciliation of previously reported amounts to the restated amounts.

Years Ended December 31, *(in millions)*	2004 (Restated)	2003 (Restated)	2002 (Restated)	2001 (Restated)	2000 (Restated)
General Insurance operations:					
Gross premiums written	$ 52,046	$ 46,938	$ 36,678	$ 28,341	$ 24,410
Net premiums written	40,623	35,031	26,718	19,793	17,588
Net premiums earned	38,537	31,306	23,595	18,661	16,345
Underwriting profit (loss)*(a)*	(247)*(c)*	1,975	(1,082)*(d)*	(777)*(e)*	(540)
Net investment income	**3,196**	2,566	2,350	2,551	2,697
Realized capital gains (losses)	228	(39)	(345)	(189)	(26)
Operating income	3,177*(c)*	4,502	923*(d)*	1,585*(e)*	2,131
Identifiable assets	131,658	117,511	105,891	88,250	80,583
Loss ratio	78.8	73.1	83.1	79.3	79.1
Expense ratio	**21.5**	19.6	21.8	24.3	23.8
Combined ratio*(b)*	100.3*(c)*	92.7	104.9*(d)*	103.6*(e)*	102.9
Life Insurance & Retirement Services operations:					
GAAP premiums	28,088	23,496	20,694	19,600	17,702
Net investment income	15,269	12,942	11,243	10,451	10,022
Realized capital gains (losses)	43	240	(372)	(400)	33
Operating income	7,923	6,807	5,181	4,633*(f)*	4,641
Identifiable assets	447,841	372,126	289,914	256,767	217,898
Insurance in-force at end of year	1,858,094	1,583,031	1,298,592	1,228,501	971,892
Financial Services operations:					
Interest, lease and finance charges*(g)*	7,495	6,242	6,822	6,321	7,049
Operating income*(g)*	2,180	1,182	2,125	1,769	2,777
Identifiable assets	165,995	141,667	128,104	107,719	93,899
Asset Management operations:					
Advisory and management fees and net investment income from GICs	4,714	3,651	3,467	3,565	3,125
Operating income	2,125	1,316	1,125	1,019	929
Identifiable assets	80,075	64,047	53,732	42,961	33,792
Other realized capital gains (losses)	(227)	(643)	(936)	(321)	(247)
Revenues*(h)*	97,666	79,421	66,171	59,958	56,700
Total operating income*(i)*	14,845	11,907	7,808	5,917	8,939
Total assets	801,145	675,602	561,598	490,614	422,709

(a) Underwriting profit (loss), a Generally Accepted Accounting Principles (GAAP) measure, is statutory underwriting profit (loss) adjusted primarily for changes in the deferral of policy acquisition costs. This adjustment is necessary to present the financial statements in accordance with GAAP.

(b) Calculated on a statutory basis, includes catastrophe losses of $1.05 billion, $83 million, $61 million, $867 million and $44 million in 2004, 2003, 2002, 2001 and 2000, respectively.

(c) *Includes fourth quarter 2004 increase of $850 million to net loss reserves reflecting the change in estimate for asbestos and environmental reserves.*

(d) *In the fourth quarter of 2002, after completion of its annual review of General Insurance loss and loss adjustment expense reserves, AIG increased its net loss reserves relating to accident years 1997 through 2001 by $2.1 billion.*

(e) *Includes $769 million in World Trade Center and related losses (WTC losses).*

(f) *Includes $100 million in WTC losses.*

(g) *Includes the unrealized gain (loss) attributable to hedging activities that do not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For 2004, 2003, 2002, 2001 and 2000, respectively, the amounts included in interest, lease and finance charges are $(122) million, $(1.01) billion, $220 million, $56 million and $1.17 billion, and the amounts included in Financial Services operating income are $(149) million, $(964) million, $240 million, $75 million and $1.17 billion. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements.*

(h) *Represents the sum of General Insurance net premiums earned, Life Insurance & Retirement Services GAAP premiums, net investment income, Financial Services interest, lease and finance charges, Asset Management advisory and management fees and net investment income from Guaranteed Investment Contracts (GICs), and realized capital gains (losses).*

(i) *Represents income before income taxes, minority interest and cumulative effect of accounting changes. Includes segment operating income and other realized capital gains (losses) presented above, as well as AIG Parent and other operations of $(333) million, $(1.26) billion, $(610) million, $(751) million and $(977) million in 2004, 2003, 2002, 2001 and 2000, respectively, and acquisition, restructuring and related charges of $(2.02) billion in 2001 and $(315) million in 2000.*

General Insurance Operations

AIG s General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance. Domestic General Insurance operations are comprised of the Domestic Brokerage Group (DBG), which includes the operations of HSB; Transatlantic Holdings, Inc. (Transatlantic); Personal Lines, including 21st Century Insurance Group (21st Century); and United Guaranty Corporation (UGC).

AIG s primary domestic division is DBG. DBG s business is derived from brokers in the United States and Canada and is conducted through its General Insurance subsidiaries including American Home, National Union, Lexington and certain other General Insurance company subsidiaries of AIG.

DBG writes substantially all classes of business insurance, accepting such business mainly from insurance brokers. This provides DBG the opportunity to select specialized markets and retain underwriting control. Any licensed broker is able to submit business to DBG without the traditional agent-company contractual relationship, but such broker usually has no authority to commit DBG to accept a risk. Through 2004 AIG used managing general agents owned by Starr to produce business in certain lines.

In addition to writing substantially all classes of business insurance, including large commercial or industrial property insurance, excess liability, inland marine, environmental, workers compensation and excess and umbrella coverages, DBG offers many specialized forms of insurance such as aviation, accident and health, equipment breakdown, directors and officers liability (D&O), difference-in-conditions, kidnap-ransom, export credit and political risk, and various types of professional errors and omissions coverages. The AIG Risk Management operation provides insurance and risk management programs for large corporate customers. The AIG Risk Finance operation is a leading provider of customized structured insurance products. Also included in DBG are the operations of AIG Environmental, which focuses specifically on providing specialty products to clients with environmental exposures. Lexington writes surplus lines, those risks for which conventional insurance companies do not readily provide insurance coverage, either because of complexity or because the coverage does not lend itself to conventional contracts.

Certain of the products of the DBG companies include funding components or have been structured in a manner such that little or no insurance risk is actually transferred. Funds received in connection with these products are recorded as deposits, included in other liabilities, rather than premiums and incurred losses.

The AIG Worldsource Division introduces and coordinates AIG s products and services to U.S.-based multinational clients and foreign corporations doing business in the U.S. Transatlantic subsidiaries offer reinsurance capacity on both a treaty and facultative basis both in the U.S. and abroad. Transatlantic structures programs for a full range of property and casualty products with an emphasis on specialty risk.

AIG s personal lines operations engage in mass marketing of personal lines coverages, primarily private passenger auto and personal umbrella coverages, principally through American International Insurance Company and 21st Century. In 2003, AIG acquired the U.S.-based auto and home insurance business of General Electric Company (GE).

The business of UGC and its subsidiaries is also included in the domestic operations of AIG. The principal business of the UGC subsidiaries is the writing of residential mortgage loan insurance, which is guaranty insurance on conventional first mortgage loans on single-family dwellings and condominiums. This type of insurance protects lenders against loss if borrowers default. UGC subsidiaries also write home equity and property improvement loan insurance on loans to finance residential property improvements, alterations and repairs and for other purposes not necessarily related to real estate. During 2003, UGC commenced providing guaranty insurance to providers of student loans. UGC had approximately $22 billion of guaranty risk in force at December 31, 2004.

AIG s Foreign General Insurance group accepts risks primarily underwritten through American International Underwriters (AIU), a marketing unit consisting of wholly owned agencies and insurance companies. The Foreign General Insurance group also includes business written by AIG s foreign-based insurance subsidiaries. The Foreign General group uses various marketing methods and multiple distribution channels to write both business and personal lines insurance with certain refinements for local laws, customs and needs. AIU operates in Asia,

the Pacific Rim, the United Kingdom, Europe, Africa, the Middle East and Latin America. See also Note 3 of Notes to Consolidated Financial Statements.

During 2004, DBG and the Foreign General Insurance group accounted for 55.4 percent and 23.2 percent, respectively, of AIG s General Insurance net premiums written.

AIG s General Insurance company subsidiaries worldwide operate primarily by underwriting and accepting risks for their direct account and securing reinsurance on that portion of the risk in excess of the limit which they wish to retain. This operating policy differs from that of many insurance companies that will underwrite only up to their net retention limit, thereby requiring the broker or agent to secure commit-

ments from other underwriters for the remainder of the gross risk amount.

Certain of DBG s commercial insurance is reinsured on a quota share basis by AIRCO. Various AIG profit centers, including AIU, AIG Reinsurance Advisors, Inc. and AIG Risk Finance, use AIRCO as a reinsurer for certain of their businesses, and AIRCO also receives premiums from offshore fronting arrangements for clients of AIG subsidiaries. In accordance with permitted accounting practices in Bermuda, AIRCO discounts reserves attributable to certain classes of business assumed from other AIG subsidiaries. See Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Review Reserve for Losses and Loss Expenses.

The utilization of reinsurance is closely monitored by senior management and AIG s Credit Risk Committee. AIG believes that no exposure to a single reinsurer represents an inappropriate concentration of risk to AIG, nor is AIG s business substantially dependent upon any reinsurance contract. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 5 of Notes to Consolidated Financial Statements.

AIG is diversified both in terms of classes of business and geographic locations. In General Insurance, approximately 13 percent of net premiums written for the year ended December 31, 2004 represented workers compensation business. During 2004, of the direct General Insurance premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded), 12.0 percent and 6.7 percent were written in California and New York, respectively. No other state accounted for more than five percent of such premiums.

The majority of AIG s General Insurance business is in the casualty classes, which tend to involve longer periods of time for the reporting and settling of claims. This may increase the risk and uncertainty with respect to AIG s loss reserve development. See also the Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development and Management s Discussion and Analysis of Financial Condition and Results of Operations.

Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development

The reserve for net losses and loss expenses represents the accumulation of estimates for reported losses (case basis reserves) and provisions for losses incurred but not reported (IBNR), both reduced by applicable reinsurance recoverable and the discount for future investment income. Losses and loss expenses are charged to income as incurred.

Loss reserves established with respect to foreign business are set and monitored in terms of the respective local or functional currency. Therefore, no assumption is included for changes in currency rates. See also Note 1(w) of Notes to Consolidated Financial Statements.

Management reviews the adequacy of established loss reserves through the utilization of a number of analytical reserve development techniques. Through the use of these techniques, management is able to monitor the adequacy of its established reserves and determine appropriate assumptions for inflation. Also, analysis of emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence, allows management to determine any required adjustments. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

As a result of its internal review and remediation efforts, AIG has determined that its carried reserves for net losses and loss expenses are required to be restated and adjusted. The tables below present those amounts as so restated and adjusted. In addition, AIG has increased the reserves for asbestos and environmental exposures included within the reserve for net losses and loss expenses by $850 million in the fourth quarter of 2004 to reflect a change in estimate. See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements, Fourth Quarter 2004 Changes in Estimates and Operating Review Asbestos and Environmental Reserves. See also Notes 1(cc) and 2 of Notes to Consolidated Financial Statements.

The Analysis of Consolidated Losses and Loss Expense Reserve Development table presents the development of net losses and loss expense reserves for calendar years 1994 through 2004. Immediately following this table is a second table that presents all data on a basis that excludes asbestos and environmental net losses and loss expense reserve development. The opening reserves held are shown at the top of the table for each year end date. The amount of loss reserve discount included in the opening reserve at each date is shown immediately below the reserves held for each year. The undiscounted reserve at each date is thus the sum of the discount and the reserve held. The upper half of the table shows the cumulative amounts paid during successive years related to the undiscounted opening loss reserves. For example, in the table that excludes

asbestos and environmental losses, with respect to the net losses and loss expense reserve of $20.73 billion as of December 31, 1997, by the end of 2004 (seven years later) $18.97 billion had actually been paid in settlement of these net loss reserves. In addition, as

reflected in the lower section of the table, the original reserve of $20.73 billion was reestimated to be $21.84 billion at December 31, 2004. This increase from the original estimate would generally result from a combination of a number of factors, including reserves being settled for larger amounts than originally estimated. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claim frequency and severity patterns. The redundancy (deficiency) depicted in the table, for any particular calendar year, shows the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective column heading. For example, the deficiency of $2.19 billion at December 31, 2004 related to December 31, 2003 net losses and loss expense reserves of $37.08 billion represents the cumulative amount by which reserves for 2003 and prior years have developed deficiently during 2004. The deficiency that has emerged in the last year can be attributed primarily to approximately $750 million in development from claims for accident year 2002 and prior for D&O, and $500 million in development from claims for accident year 2000 and prior for excess casualty. Additionally, the general reinsurance operations of Transatlantic accounted for approximately $300 million of the adverse development in the latest year. Other classes of business contributed deficiencies or redundancies of lesser amounts. For most other classes, accident years 2001 and prior generally produced adverse development in the latest year, whereas accident year 2003 generally produced favorable development. In total, the favorable development for accident year 2003 was approximately $1.5 billion. The accident year emergence can be seen by comparing the respective development in 2004 for each column s loss reserve in the table that follows. Loss development patterns utilized to test the reserves generally rely on the actual historical loss development patterns of prior accident years for each class of business. Additionally, as shown in the table excluding asbestos and environmental losses below, loss emergence from year end 1994 and 1995 has been favorable on an inception-to-date basis through year end 2004. Loss cost trends deteriorated significantly in the late 1990 s, creating the adverse development for years after 1996.

The bottom of each table below shows the remaining undiscounted and discounted net loss reserve for each year. For example, in the table that excludes asbestos and environmental losses, for the 2000 year-end, the remaining undiscounted reserves held as of December 31, 2004 are $8.66 billion, with a corresponding discounted net reserve of $8.06 billion.

The reserves for net losses and loss expenses with respect to Transatlantic and 21st Century are included only in consolidated net losses and loss expenses commencing with the year ended December 31, 1998. Reserve development for these operations is included only for 1998 and subsequent periods. Thus, the presentation for 1997 and prior year ends is not fully comparable to that for 1998 and subsequent years in the tables below.

Analysis of Consolidated Losses and Loss Expense Reserve Development

The following table presents for each calendar year the losses and loss expense reserves and the development thereof including those with respect to asbestos and environmental claims. As a result of the internal review and remediation efforts discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations, the amounts of carried reserves and the liabilities reestimated have been restated or adjusted for all periods presented. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

(in millions)	**1994 (Restated)**	**1995 (Restated)**	**1996 (Restated)**	**1997 (Restated)**	**1998 (Restated)**	**1999 (Restated)**	**2000 (Restated)**	**2001 (Restated)**	**2002 (Restated)**	**2003 (Restated)**	**2004 (Restated)**
Net Reserves Held	$ 18,754	$ 19,755	$ 20,496	$ 20,901	$ 25,418	$ 25,636	$ 25,684	$ 26,005	$ 29,347	$ 36,228	$ 47,254
Discount (in Reserves Held)	157	217	393	619	897	1,075	1,287	1,423	1,499	1,516	1,553
Net Reserves Held (Undiscounted)	18,911	19,972	20,889	21,520	26,315	26,711	26,971	27,428	30,846	37,744	48,807
Paid (Cumulative) as of:											
One year later	4,922	5,416	5,712	5,607	7,205	8,266	9,709	11,007	10,775	12,163	
Two years later	8,338	8,982	9,244	9,754	12,382	14,640	17,149	18,091	18,589		
Three years later	10,702	11,363	11,943	12,939	16,599	19,901	21,930	23,881			
Four years later	12,541	13,108	14,152	15,484	20,263	23,074	26,090				
Five years later	13,868	14,667	16,077	17,637	22,303	25,829					
Six years later	15,036	16,120	17,551	18,806	24,114						
Seven years later	16,079	17,212	18,415	19,919							
Eight years later	16,947	17,792	19,200								
Nine years later	17,359	18,379									
Ten years later	17,806										

(in millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net Reserves Held (undiscounted)	$ 18,911	$ 19,972	$ 20,889	$ 21,520	$ 26,315	$ 26,711	$ 26,971	$ 27,428	$ 30,846	$ 37,744	$ 48,807
Undiscounted Liability Restated as of:											
One year later	18,522	19,782	20,795	21,563	25,897	26,358	26,979	31,112	32,913	40,931	
Two years later	18,672	19,866	20,877	21,500	25,638	27,023	30,696	33,363	37,583		
Three years later	18,900	19,865	20,994	21,264	26,169	29,994	32,732	37,964			
Four years later	18,977	20,143	20,776	21,485	28,021	31,192	36,210				
Five years later	19,173	19,991	20,917	22,405	28,607	33,910					
Six years later	19,161	19,950	21,469	22,720	30,632						
Seven years later	19,119	20,335	21,671	24,209							
Eight years later	19,444	20,558	22,986								
Nine years later	19,622	21,736									
Ten years later	20,763										
Net Redundancy/(Deficiency)	(1,852)	(1,764)	(2,097)	(2,689)	(4,317)	(7,199)	(9,239)	(10,536)	(6,737)	(3,187)	
Remaining Reserves (Undiscounted)	2,957	3,357	3,786	4,289	6,517	8,081	10,121	14,083	18,994	28,768	
Remaining Discount	205	240	281	332	404	490	596	789	915	1,139	
Remaining Reserves	2,752	3,117	3,505	3,957	6,113	7,591	9,525	13,294	18,079	27,629	

The table below shows the gross liability (before discount), reinsurance recoverable and net liability recorded at each year-end and the reestimation of these amounts as of December 31, 2004.

(in millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004

Gross Liability, End of Year	$ 30,982	$ 32,298	$ 32,605	$ 32,049	$ 36,973	$ 37,278	$ 39,222	$ 42,629	$ 48,173	$ 53,387	$ 63,431
Reinsurance Recoverable, End of Year	12,071	12,326	11,716	10,529	10,658	10,567	12,251	15,201	17,327	15,643	14,624
Net Liability, End of Year	18,911	19,972	20,889	21,520	26,315	26,711	26,971	27,428	30,846	37,744	48,807
Reestimated Gross Liability	34,495	36,553	37,226	39,088	47,229	51,337	55,241	57,301	56,711	57,366	
Reestimated Reinsurance Recoverable	13,732	14,817	14,240	14,879	16,597	17,427	19,031	19,337	19,128	16,435	
Reestimated Net Liability	20,763	21,736	22,986	24,209	30,632	33,910	36,210	37,964	37,583	40,931	
Cumulative Gross Redundancy/(Deficiency)	(3,513)	(4,255)	(4,621)	(7,039)	(10,256)	(14,059)	(16,019)	(14,672)	(8,538)	(3,978)	

Analysis of Consolidated Losses and Loss Expense Reserve Development Excluding Asbestos and Environmental Losses and Loss Expense Reserve Development

The following table presents for each calendar year the losses and loss expense reserves and the development thereof excluding those with respect to asbestos and environmental claims. As a result of the internal review and remediation efforts discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations, the amounts of carried reserves and the liabilities reestimated have been restated or adjusted for all periods presented. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

(in millions)	1994 (Restated)	1995 (Restated)	1996 (Restated)	1997 (Restated)	1998 (Restated)	1999 (Restated)	2000 (Restated)	2001 (Restated)	2002 (Restated)	2003 (Restated)	2004 (Restated)
Net Reserves Held	$ 18,424	$ 19,247	$ 19,753	$ 20,113	$ 24,554	$ 24,745	$ 24,829	$ 25,286	$ 28,650	$ 35,559	$ 45,742
Discount (in Reserves Held)	157	217	393	619	897	1,075	1,287	1,423	1,499	1,516	1,553
Net Reserves Held (Undiscounted)	18,581	19,464	20,146	20,732	25,451	25,820	26,116	26,709	30,149	37,075	47,295
Paid (Cumulative) as of:											
One year later	4,847	5,309	5,603	5,467	7,084	8,195	9,515	10,861	10,632	11,999	
Two years later	8,156	8,771	8,996	9,500	12,190	14,376	16,808	17,801	18,283		
Three years later	10,417	11,013	11,582	12,618	16,214	19,490	21,447	23,430			
Four years later	12,117	12,645	13,724	14,972	19,732	22,521	25,445				
Five years later	13,332	14,139	15,460	16,983	21,630	25,116					
Six years later	14,435	15,404	16,792	18,014	23,282						
Seven years later	15,291	16,355	17,519	18,972							
Eight years later	16,018	16,798	18,149								
Nine years later	16,294	17,230									
Ten years later	16,588										

(in millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Net Reserves Held (undiscounted)	$ 18,581	$ 19,464	$ 20,146	$ 20,732	$ 25,451	$ 25,820	$ 26,116	$ 26,709	$ 30,149	$ 37,075	$ 47,295
Undiscounted Liability Restated as of:											
One year later	17,940	18,937	19,904	20,576	24,890	25,437	26,071	30,274	32,129	39,261	
Two years later	17,758	18,883	19,788	20,385	24,602	26,053	29,670	32,438	35,803		
Three years later	17,848	18,680	19,777	20,120	25,084	28,902	31,619	36,043			
Four years later	17,723	18,830	19,530	20,301	26,813	30,014	34,102				
Five years later	17,793	18,651	19,633	21,104	27,314	31,738					
Six years later	17,755	18,574	20,070	21,336	28,345						
Seven years later	17,676	18,844	20,188	21,836							
Eight years later	17,888	18,984	20,515								
Nine years later	17,982	19,173									
Ten years later	18,136										
Net Redundancy/(Deficiency)	445	291	(369)	(1,104)	(2,894)	(5,918)	(7,986)	(9,334)	(5,654)	(2,186)	
Remaining Reserves (undiscounted)	1,547	1,942	2,366	2,864	5,063	6,621	8,656	12,613	17,519	27,263	
Remaining Discount	205	240	281	332	404	490	596	789	915	1,139	
Remaining Reserves	1,342	1,702	2,085	2,532	4,659	6,131	8,060	11,824	16,604	26,124	

The table below shows the gross liability (before discount), reinsurance recoverable and net liability recorded at each year-end and the reestimation of these amounts as of December 31, 2004.

(in millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Liability, End of Year	$ 29,568	$ 30,356	$ 30,302	$ 29,740	$ 34,474	$ 34,666	$ 36,777	$ 40,400	$ 46,036	$ 51,363	$ 59,897
Reinsurance Recoverable, End of Year	10,987	10,892	10,156	9,008	9,023	8,846	10,661	13,691	15,887	14,288	12,602
Net Liability, End of Year	18,581	19,464	20,146	20,732	25,451	25,820	26,116	26,709	30,149	37,075	47,295
Reestimated Gross Liability	26,850	29,251	30,325	32,631	41,100	45,614	50,038	52,624	52,377	53,439	
Reestimated Reinsurance Recoverable	8,714	10,078	9,810	10,795	12,755	13,876	15,936	16,581	16,574	14,178	
Reestimated Net Liability	18,136	19,173	20,515	21,836	28,345	31,738	34,102	36,043	35,803	39,261	
Cumulative Gross Redundancy/(Deficiency)	2,718	1,105	(23)	(2,891)	(6,626)	(10,948)	(13,261)	(12,224)	(6,341)	(2,076)	

Reconciliation of Net Reserves for Losses and Loss Expenses

(in millions)	2004 (Restated)	2003 (Restated)	2002 (Restated)
Net reserve for losses and loss expenses at beginning of year	$ 36,228	$ 29,347	$ 26,005
Foreign exchange effect	524	580	195
Acquisition		391*(a)*	
Losses and loss expenses incurred:			
Current year	26,793	20,509	15,648
Prior years*(b)*	3,564*(c)*	2,363	3,964
	30,357	22,872	19,612
Losses and loss expenses paid:			
Current year	7,692	6,187	5,458
Prior years	12,163	10,775	11,007
	19,855	16,962	16,465
Net reserve for losses and loss expenses at end of year*(d)*	$ 47,254	$ 36,228	$ 29,347

(a) Reflects the opening balances with respect to the GE U.S.-based auto and home insurance business acquired in 2003.
(b) Includes accretion of discount of $377 million in 2004, $296 million in 2003 and $280 million in 2002.
(c) Includes fourth quarter charge of $850 million attributable to the change in estimate for asbestos and environmental reserves.
(d) See also Note 6(a) of Notes to Consolidated Financial Statements.

For further discussion regarding net reserves for losses and loss expenses, see Management s Discussion and Analysis of Financial Condition and Results of Operations.

The adjustments made to the reserve for losses and loss expenses resulting from the internal review, including the fourth quarter 2004 charge attributable to a change in estimate for asbestos and environmental exposures, were restated or adjusted in the Annual Statements filed with state insurance departments and, where appropriate, with foreign regulatory authorities. In addition, because not all of AIG s General Insurance operations are subject to regulatory filing requirements by the states, there are differences between the sum of reserves for losses and loss expenses as filed with the states and the reserves for losses and loss expenses as reported in AIG s Consolidated Balance Sheet at December 31, 2004. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 of Notes to Consolidated Financial Statements.

Life Insurance & Retirement Services Operations

AIG s Life Insurance & Retirement Services subsidiaries offer a wide range of insurance and investment-oriented products both domestically and abroad. Insurance-oriented products consist of individual and group life, payout annuities, endowment and accident and health policies. Investment-oriented products consist generally of fixed and variable annuities. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

Life Insurance & Retirement Services operations in foreign countries comprised 78.0 percent of Life Insurance & Retirement Services GAAP premiums and 61.2 percent of Life Insurance & Retirement Services operating income in 2004. AIG operates overseas principally through ALICO, AIA, Nan Shan, Philamlife, AIG Star Life, and AIG Edison Life. ALICO is incorporated in Delaware and all of its business is written outside of the United States. ALICO has operations either directly or through subsidiaries in Europe, Latin America, the Caribbean, the

Middle East, South Asia and the Far East, with Japan being the largest territory. AIG added significantly to its presence in Japan with the acquisition of GE Edison Life Insurance Company (now AIG Edison Life), which was consolidated beginning with the fourth quarter of 2003. AIA operates primarily in China (including Hong Kong), Singapore, Malaysia, Thailand, Korea, Australia, New Zealand, Vietnam, and India. The operations in India are conducted through a joint venture, Tata AIG Life Insurance Company Limited. Nan Shan operates in Taiwan. Philamlife is the largest life insurer in the Philippines. AIG Star Life operates in Japan. See also Note 3 of Notes to Consolidated Financial Statements.

AIRCO acts primarily as an internal reinsurance company for AIG s foreign life operations. This facilitates insurance risk management (retention, volatility, concentrations) and capital planning locally (branch and subsidiary). It also allows AIG to pool its insurance risks and purchase reinsurance more efficiently at a consolidated level and manage global counterparty risk and relationships.

AIG s principal domestic Life Insurance & Retirement Services operations include AGLA, AIG American General, AIG Annuity, USLIFE, VALIC and SunAmerica Life. These companies utilize multiple distribution channels including independent producers, brokerage, career agents and banks to offer life insurance, annuity and accident and health products and services as well as financial and investment products. The domestic Life Insurance & Retirement Services operations comprised 22.0 percent of total Life Insurance & Retirement Services GAAP premiums and 38.8 percent of Life Insurance & Retirement Services operating income in 2004.

There was no significant adverse effect on AIG s Life Insurance & Retirement Services results of operations from economic environments in any one state, country or geographic region for the year ended December 31, 2004. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

Life insurance products such as whole life and endowment continue to be significant in the overseas companies, especially in Southeast Asia, while a mixture of life insurance, accident and health and retirement services products are sold in Japan.

In addition to the above, AIG also has subsidiary operations in Canada, Egypt, Mexico, Poland, Switzerland and Puerto Rico, and conducts life insurance business through a joint venture in Brazil and through an AIUO subsidiary company in Russia, and in certain countries in Central and South America.

The foreign Life Insurance & Retirement Services companies have over 250,000 full and part-time agents, as well as independent producers, and sell their products largely to indigenous persons in local and foreign currencies. In addition to the agency outlets, these companies also distribute their products through direct marketing channels, such as mass marketing, and through brokers and other distribution outlets, such as financial institutions.

Insurance Investment Operations

A significant portion of AIG s General Insurance and Life Insurance & Retirement Services operating revenues are derived from AIG s insurance investment operations. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 1, 3 and 8 of Notes to Consolidated Financial Statements.

The following table summarizes the investment results of the General Insurance operations. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of Notes to Consolidated Financial Statements.

	Annual Average Cash and Invested Assets				
Years Ended December 31, *(in millions)*	Cash (including short-term invetments)	Invested Assets*(a)*	Total	Return on Average Cash and Assets	Return on Average Assets
2004 (Restated)	$2,012	$ 73,338	$ 75,350	4.2%*(b)*	4.4%*(c)*
2003 (Restated)	1,818	59,855	61,673	4.2 *(b)*	4.3 *(c)*
2002 (Restated)	1,537	47,477	49,014	4.8 *(b)*	5.0 *(c)*
2001 (Restated)	1,338	41,481	42,819	6.0 *(b)*	6.2 *(c)*
2000 (Restated)	1,152	39,687	40,839	6.6 *(b)*	6.8 *(c)*

(a) Including investment income due and accrued, and real estate.
(b) Net investment income divided by the annual average sum of cash and invested assets.
(c) Net investment income divided by the annual average invested assets.

The following table summarizes the investment results of the Life Insurance & Retirement Services operations. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 8 of Notes to Consolidated Financial Statements.

Years Ended December 31, *(in millions)*	Annual Average Cash and Invested Assets: Cash (including short-term invetments)	Invested Assets*(a)*	Total	Return on Average Cash and Assets	Return on Average Assets
2004 (Restated)	$ 5,089	$ 307,659	$ 312,748	4.9%*(b)*	5.0%*(c)*
2003 (Restated)	4,680	247,608	252,288	5.1 *(b)*	5.2 *(c)*
2002 (Restated)	3,919	199,750	203,669	5.5 *(b)*	5.6 *(c)*
2001 (Restated)	3,615	162,708	166,323	6.3 *(b)*	6.4 *(c)*
2000 (Restated)	4,644	137,947	142,591	7.0 *(b)*	7.3 *(c)*

(a) Including investment income due and accrued, and real estate.
(b) Net investment income divided by the annual average sum of cash and invested assets.
(c) Net investment income divided by the annual average invested assets.

AIG s worldwide insurance investment policy places primary emphasis on investments in government and other high quality, fixed income securities in all of its portfolios and, to a lesser extent, investments in high yield bonds, common stocks and partnerships, in order to preserve policyholders surplus and generate net investment income. The ability to implement this policy is somewhat limited in certain territories as there may be a lack of adequate long-term investments or investment restrictions may be imposed by the local regulatory authorities. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

Financial Services Operations

AIG s Financial Services subsidiaries engage in diversified financial products and services including aircraft leasing, capital market transactions, and consumer and insurance premium financing.

Aircraft Finance operations represent the operations of ILFC, which engages primarily in the acquisition of commercial jet aircraft and the leasing and remarketing of such aircraft to airlines around the world. ILFC also provides, for a fee, fleet management services to certain third-party operators. See also Note 3 of Notes to Consolidated Financial Statements.

During the third quarter of 2003, AIG integrated the operations of AIG Trading Group Inc. with AIG Financial Products Corp., establishing the Capital Markets reporting unit. AIGFP engages as principal in standard and customized interest rate, currency, equity, commodity, and credit products with top-tier corporations, financial institutions, governments, agencies, institutional investors, and high-net-worth individuals throughout the world. AIGFP also raises funds through municipal reinvestment contracts and other private and public security offerings, investing the proceeds in a diversified portfolio of high grade securities and derivative transactions. AIGFP engages in various commodity and foreign exchange trading and market-making activities. See also Note 3 of Notes to Consolidated Financial Statements.

Consumer Finance operations include AGF as well as AIG Consumer Finance Group, Inc. (AIGCFG). See also Note 3 of Notes to Consolidated Financial Statements.

AGF provides a wide variety of consumer finance products, including real estate mortgages, consumer loans, retail sales finance and credit-related insurance to customers in the United States.

AIGCFG, through its subsidiaries, is engaged in developing a multi-product consumer finance business with an emphasis on emerging markets.

Together, the Aircraft Finance, Capital Markets and Consumer Finance operations generate the vast majority of the revenues produced by AIG s consolidated Financial Services operations.

Imperial A.I. Credit Companies also contribute to Financial Services income. This operation engages principally in insurance premium financing for both AIG s customers and those of other insurers. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 1 of Notes to Consolidated Financial Statements.

Asset Management Operations

AIG s Asset Management operations comprise a wide variety of investment-related services and investment products, including institutional and retail asset management, broker dealer services and spread-based investment business from the sale of guaranteed investment contracts, also known as funding agreements (GICs). Such products and services are offered to individuals and institutions both domestically and overseas.

AIG s principal Asset Management operations are conducted through certain subsidiaries of AIG Retirement Services, Inc. (AIG SunAmerica), including SAAMCo and the AIG Advisor Group broker dealers and AIG Global Investment Group. AIG SunAmerica sells and manages mutual funds and provides financial advisory services through independent-contractor registered representatives. AIG Global Investment Group manages invested assets on a global basis for third-party institutional, retail, private equity and real estate investment funds, provides securities lending and custodial services and organizes and manages the invested assets of institutional private equity investment funds. Each of these subsidiary operations receives fees for investment products and services provided. See also Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 3 of Notes to Consolidated Financial Statements.

Other Operations

Certain other AIG subsidiaries provide insurance-related services such as adjusting claims and marketing specialized products. Several wholly owned foreign subsidiaries of AIG operating in countries such as Ireland, Bermuda, Barbados and Gibraltar provide insurance and related administrative and back office services to a variety of insurance and reinsurance companies. These companies include captive insurance companies unaffiliated with AIG, subsidiaries of AIG and the subsidiaries of holding companies in which AIG holds an interest, such as IPC Holdings, Ltd (IPC) and Allied World Assurance Holdings, Ltd. (AWAC). AIG also has several other subsidiaries which engage in various businesses. For example, American

International Technology Enterprises, Inc. provides information technology and processing services to businesses worldwide. Mt. Mansfield Company, Inc. owns and operates the ski slopes, lifts, school and an inn located at Stowe, Vermont.

Additional Investments

AIG holds a 24.3 percent interest in IPC, a reinsurance holding company, a 23.4 percent interest in AWAC, a property-casualty insurance holding company, and a 24.5 percent interest in The Fuji Fire and Marine Insurance Co., Ltd., a general insurance company. See also Note 1(q) of Notes to Consolidated Financial Statements.

Locations of Certain Assets

As of December 31, 2004, approximately 31 percent of the consolidated assets of AIG were located in foreign countries (other than Canada), including $4.1 billion of cash and securities on deposit with foreign regulatory authorities. Foreign operations and assets held abroad may be adversely affected by political developments in foreign countries, including such possibilities as tax changes, nationalization, and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG s policy is to take all appropriate measures to seek recovery of such assets. Certain of the countries in which AIG s business is conducted have currency restrictions which generally cause a delay in a company s ability to repatriate assets and profits. See also Certain Factors Affecting AIG s Business Foreign Operations and Notes 1 and 3 of Notes to Consolidated Financial Statements.

Regulation

AIG s operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, investment advisory, banking and thrift regulators in the United States and abroad. The regulatory environment can have a significant effect on AIG and its business. AIG s operations have become more diverse and consumer-oriented, increasing the scope of regulatory supervision and the possibility of intervention. In addition, the investigations into financial accounting practices that led to the First Restatement of AIG s financial statements have heightened regulatory scrutiny of AIG worldwide. See Certain Factors Affecting AIG s Business Regulatory Investigations and Note 2 of Notes to Consolidated Financial Statements.

Certain states require registration and periodic reporting by insurance companies that are licensed in such states and are controlled by other corporations. Applicable legislation typically requires periodic disclosure concerning the corporation that controls the registered insurer and the other companies in the holding company system and prior approval of intercorporate services and transfers of assets (including in some instances payment of dividends by the insurance subsidiary) within the holding company system. AIG s subsidiaries are registered under such legislation in those states that have such requirements. See also Note 11 of Notes to Consolidated Financial Statements.

AIG s insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to approval of policy forms and rates, the standards of solvency that must be met and maintained, including risk-based capital measurements, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, and reserves for unearned premiums, losses and other purposes. In general, such regulation is for the protection of policyholders rather than the equity owners of these companies. See also Management s Discussion and Analysis of Financial Condition and Results of Operations.

In connection with its First Restatement, AIG undertook to examine and evaluate each of the items that have been restated or adjusted in its consolidated GAAP financial statements to determine whether restatement of the previously filed statutory financial statements of its insurance company subsidiaries would be required. In October and early November 2005, AIG completed its audited statutory financial statements for all of the Domestic General Insurance companies. The statutory accounting treatment of the various items requiring adjustment or restatement was reviewed and agreed to with the relevant state insurance regulators in advance of the filings. Adjustments necessary to reflect the cumulative effect on statutory surplus of adjustments relating to years prior to 2004 were made to 2004 opening surplus, and 2004 statutory net income was

restated accordingly. Previously reported General Insurance statutory surplus at December 31, 2004 was reduced by approximately $3.5 billion to approximately $20.6 billion. The state regulators have also permitted the Domestic General Insurance companies to record a $724 million reduction to opening statutory surplus as of January 1, 2005 to reflect the effects of the Second Restatement.

AIG s insurance operations are currently under review by various state regulatory agencies. See Item 3. Legal Proceedings for a further description of these investigations and see Certain Factors Affecting AIG s Business Regulatory Investigations for more information on their application to AIG s insurance businesses.

Risk-Based Capital (RBC) is designed to measure the adequacy of an insurer s statutory surplus in relation to the risks inherent in its business. Thus, inadequately capitalized general and life insurance companies may be identified.

The RBC formula develops a risk adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to more risky items and lower factors are applied to less risky items. Thus, the target level of statutory surplus varies not only as a result of the insurer s size, but also on the risk profile of the insurer s operations.

The RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to placing the insurer under regulatory control.

To the extent that any of AIG s insurance entities would fall below prescribed levels of surplus, it would be AIG s intention to infuse necessary capital to support that entity. In some cases, AIG is contractually obligated to contribute capital to insurance subsidiaries in DBG.

A substantial portion of AIG s General Insurance business and a majority of its Life Insurance business is carried on in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification or revocation by such authorities, and AIU or other AIG subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate. In the past, AIU has been allowed to modify its operations to conform with new licensing requirements in most jurisdictions.

In addition to licensing requirements, AIG s foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, amount and type of security deposits, amount and type of reserves, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the state, to which admitted insurers are obligated to cede a portion of their business on terms which may not always allow foreign insurers, including AIG, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

In 1999, AIG became a unitary thrift holding company when the Office of Thrift Supervision (OTS) granted AIG approval to organize AIG Federal Savings Bank. Annually, the OTS conducts an examination of AIG. The OTS examination involves assessing the organization s overall risk profile.

Competition

AIG s Insurance, Financial Services and Asset Management businesses operate in a highly competitive environment, both domestically and overseas. Principal sources of competition are insurance companies, banks, investment banks and other non-bank financial institutions.

The insurance industry in particular is highly competitive. Within the United States, AIG s General Insurance subsidiaries compete with approximately 3,100 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. AIG s subsidiaries offering Life Insurance and Retirement Services compete in the United States with approximately 2,100 life insurance companies and other participants in related financial services fields. Overseas, AIG subsidiaries compete for business with foreign insurance operations of the larger U.S. insurers, global insurance groups, and local companies in particular areas in which they are active.

AIG s strong ratings have historically provided a competitive advantage. The effect on the business of AIG of recent regulatory investigations, the Restatements, and subsequent ratings actions is currently unknown, but these developments may adversely affect the competitive position of AIG and its subsidiaries. See Certain Factors Affecting AIG s Business AIG s Credit Ratings.

Certain Factors Affecting AIG s Business

AIG s Credit Ratings

The downgrades in AIG s credit ratings will increase AIG s borrowing costs, may lessen AIG s ability to compete in certain businesses and will require AIG to post additional collateral.

From March through June of 2005, the major rating agencies downgraded AIG s ratings in a series of actions. Standard & Poor s, a division of The McGraw-Hill Companies, Inc. (S&P), lowered the long-term senior debt and counterparty ratings of AIG from AAA to AA and changed

the rating outlook to negative. Moody s Investors Service (Moody s) lowered AIG s long-term senior debt rating from Aaa to Aa2 and changed the outlook to stable. Fitch Ratings (Fitch) downgraded the long-term senior debt ratings of AIG from AAA to AA and placed the ratings on Rating Watch Negative.

The agencies also took rating actions on AIG s insurance subsidiaries. S&P and Fitch lowered to AA+ the insurance financial strength ratings of most of AIG s insurance companies. Moody s lowered the insurance financial strength ratings generally to either Aa1 or Aa2 . A.M. Best downgraded the financial strength ratings for most of AIG s insurance subsidiaries from A++ to A+ and the issuer credit ratings from aa+ to aa- Many of these companies ratings remain on a negative watch.

In addition, S&P changed the outlook on ILFC s AA- long-term senior debt rating to negative. Moody s affirmed ILFC s long-term and short-term senior debt ratings (A1 / P-1). Fitch downgraded ILFC s long-term senior debt rating from AA- to A+ and placed the rating on Ratin Watch Negative and downgraded ILFC s short-term debt rating from F1+ to F1 . Fitch also placed the A+ long-term senior debt ratings of American General Finance Corporation and American General Finance, Inc. on Rating Watch Negative. S&P and Moody s affirmed the long-term and short-term senior debt ratings of American General Finance Corporation at A+ / A-1 and A1 / P-1 , respectively.

These debt and financial strength ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at AIG management s request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries.

These ratings actions have affected and will continue to affect AIG s business and results of operations in a number of ways.

Downgrades in AIG s debt ratings will adversely affect AIG s results of operations. AIG relies on external sources of financing to fund several of its operations. The cost and availability of unsecured financing are generally dependent on the issuer s long-term and short-term debt ratings. These downgrades and any future downgrades in AIG s debt ratings may adversely affect AIG s borrowing costs and therefore adversely affect AIG s results of operations.

The downgrade in AIG s long-term senior debt ratings will adversely affect AIGFP s ability to compete for certain businesses. Credit ratings are very important to the ability of financial institutions to compete in the derivative and structured transaction marketplaces. Historically, AIG s triple-A ratings provided AIGFP a competitive advantage. The downgrades have reduced this advantage and, for specialized financial transactions that generally are conducted only by triple-A rated financial institutions, counterparties may be unwilling to transact business with AIGFP except on a secured basis. This could require AIGFP to post more collateral to counterparties in the future. See below for a further discussion of the effect that posting collateral may have on AIG s liquidity.

Although the financial strength ratings of AIG s insurance company subsidiaries remain high compared to many of their competitors, the downgrades have reduced the previous ratings differential. The competitive advantage of the ratings to AIG s insurance company subsidiaries may be lessened accordingly.

As a result of the downgrades of AIG s long-term senior debt ratings, AIG has been required to post approximately $1.16 billion of collateral with counterparties to municipal guaranteed investment contracts and financial derivatives transactions. In the event of a further downgrade, AIG will be required to post additional collateral. It is estimated that, as of the close of business on February 28, 2006, based on AIG s outstanding municipal guaranteed investment agreements and financial derivatives transactions as of such date, a further downgrade of AIG s long-term senior debt ratings to Aa3 by Moody s or AA- by S&P would permit counterparties to call for approximately $962 million of additional collateral. Further, additional downgrades could result in requirements for substantial additional collateral, which could have a material effect on how AIG manages its liquidity. The actual amount of additional collateral that AIG would be required to post to counterparties in the event of such downgrades depends on market conditions, the market value of the outstanding affected transactions and other factors prevailing at the time of the downgrade. Any additional obligations to post collateral will increase the demand on AIG s liquidity.

Regulatory Investigations

Significant legal proceedings have adversely affected AIG s results of operations for 2005. As a result of the settlement discussed below under Item 3. Legal Proceedings, AIG recorded an after-tax charge of approximately $1.15 billion in the fourth quarter of 2005. AIG is party to numerous other legal proceedings and regulatory investigations. It is possible that the effect of these unresolved matters could be material to

AIG s consolidated results of operations for an individual reporting period. For a discussion of these unresolved matters, see Item 3. Legal Proceedings.

Significant investigations into AIG s business are continuing and the commencement of additional investigations is possible. Broad-ranging investigations into AIG s business practices continue. These investigations are being conducted by a number of regulators, and related actions by regulators both within and outside the United States may be undertaken in response. The review of large amounts of information by various regulatory authorities may result in the commencement of new areas of inquiry and, possibly, new significant legal proceedings.

The Relationships Between AIG and Starr and SICO

The relationships between AIG and Starr and SICO may take an extended period of time to unwind and/or resolve, and the consequences of such resolution are uncertain. Although AIG is currently working on unwinding and resolving its relationships with C.V. Starr & Co, Inc. (Starr) and Starr International Company, Inc. (SICO), AIG cannot predict what its future relationship with Starr and SICO will be. AIG subsidiaries are in the process of terminating their agency relationships with the Starr agencies and are beginning to write the business previously produced by those agencies on a direct basis. AIG also continues to address the issues posed by compensation plans and programs previously provided to AIG executives by Starr and SICO, as AIG is providing compensation programs that recognize those plans and programs. In January 2006, Starr announced that it had completed its tender offers to purchase interests in Starr and that all eligible shareholders had tendered their shares. As a result of completion of the tender offers, no AIG executive currently holds any Starr interest. AIG has entered into agreements pursuant to which AIG agrees, subject to certain conditions, to assure AIG s current employees that all payments are made under a series of two-year Deferred Compensation Profit Participation Plans provided by SICO (SICO Plans). See Note 12(f) and Note 16 of Notes to Consolidated Financial Statements. Nevertheless, there can be no assurance that AIG will be able to effectively address the consequences for its executives of the unwinding of their participation in the Starr and SICO plans and programs. Nor can there be any assurance that AIG will compete successfully for the business previously produced by the Starr agencies.

Finally, litigation between AIG and Starr and SICO remains pending, and the timing and terms of any resolution cannot currently be predicted. As a result of the foregoing, there can be no assurance that the ultimate resolution of AIG s relationships with Starr and SICO will not be adverse to AIG. For further information about litigation between AIG and Starr and SICO, see Item 3. Legal Proceedings.

Certain Material Weaknesses

Management identified a number of material weaknesses in AIG s internal control over financial reporting. AIG will provide an update on the status of its remediation efforts related to these material weaknesses in its 2005 Annual Report on Form 10-K. Delay in the implementation of remedial actions could affect the accuracy or timing of future filings with the SEC and other regulatory authorities. A discussion of these material weaknesses and AIG s remediations efforts can be found in Item 9A of Part II of this 2004 Annual Report on Form 10-K/A.

Access to Capital Markets

AIG s access to the U.S. public capital markets may be delayed by the SEC registration process. Although AIG is able to access the Rule 144A and Euro markets, AIG will be unable to access the U.S. public securities markets until it has filed and the SEC has declared effective a new registration statement under the Securities Act of 1933. Depending upon the SEC s review of these filings, this process may take several months or more.

Unless relief is granted by the SEC, AIG will not be able to avail itself of certain favorable provisions of the Securities Act. AIG will not for a period of three years be a well-known seasoned issuer. During this period, AIG s ability to communicate with respect to new product offerings and to structure client products will be more limited than they otherwise would. In addition, during this period, AIG will not be able to avail itself of provisions that allow for an automatically effective shelf registration statement or rely on the forward-looking statements safe harbor under the securities laws in providing forward-looking information to investors.

Foreign Operations

Foreign operations expose AIG to risks that may affect its operations, liquidity and financial conditions. AIG provides insurance and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions. A substantial portion of AIG s General Insurance business and a majority of its Life Insurance & Retirement Services businesses are conducted outside of the United States. Operations outside of the United States may be affected by regional economic downturns, political upheaval, nationalization and other restrictive governmental actions, which could also affect other AIG operations.

The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authori-

ties to AIG subsidiaries are subject to modification and revocation. Thus, AIG s insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG s international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments including tax changes, regulatory restrictions and nationalization of AIG s operations without compensation. Adverse affects resulting from any one country may affect AIG s results of operations, liquidity and financial condition depending on the magnitude of the event and AIG s net financial exposure at that time in that country.

Liquidity

Payments from subsidiaries may be limited by regulators. AIG depends on dividends, distributions and other payments from AIG s subsidiaries to fund dividend payments and to fund payments on AIG s obligations, including debt obligations. Regulatory and other legal restrictions may limit AIG s ability to transfer funds freely, either to or from AIG s subsidiaries. In particular, many of AIG s subsidiaries, including AIG s insurance subsidiaries, are subject to laws and regulations that authorize regulatory bodies to block or reduce the flow of funds to the parent holding company, or that prohibit such transfers altogether in certain circumstances. These laws and regulations may hinder AIG s ability to access funds that AIG may need to make payments on AIG s obligations.

Regulation

AIG is subject to extensive regulation in the jurisdictions in which it conducts its businesses. AIG s operations around the world are subject to regulation by different types of regulatory authorities, including insurance, securities, investment advisory, banking and thrift regulators in the United States and abroad. AIG s operations have become more diverse and consumer-oriented, increasing the scope of regulatory supervision and the possibility of intervention. In particular, AIG s consumer lending business is subject to a broad array of laws and regulations governing lending practices and permissible loan terms, and AIG would expect increased regulatory scrutiny on this business.

The regulatory environment could have a significant effect on AIG and its businesses. Among other things, AIG could be fined, prohibited from engaging in some of its business activities or subject to limitations or conditions on its business activities. Significant regulatory action against AIG could have material adverse financial effects, cause significant reputational harm, or harm business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to clients may also adversely affect AIG and its businesses. See Regulation in this Item 1. Business.

Casualty Insurance Underwriting and Reserves

Casualty insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. Although AIG annually reviews the adequacy of the established reserve for losses and loss expenses, there can be no assurance that AIG s ultimate loss reserves will not develop adversely and materially exceed AIG s current loss reserves. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss trends or loss development factors could be attributable to changes in inflation on labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims. See Management s Discussion and Analysis of Financial Condition and Results of Operations Operating Review Reserve for Losses and Loss Expenses.

Natural Disasters and Pandemic Diseases

Natural disasters and pandemic disease could adversely affect AIG s operating results. Natural disasters such as hurricanes, earthquakes and other catastrophes have the potential to adversely affect AIG s operating results. Other risks, such as an outbreak of a pandemic disease, such as the Avian Influenza A Virus (H5N1), could adversely affect AIG s business and operating results to an extent that may be only minimally offset by reinsurance programs.

While to date outbreaks of the Avian Flu continue to occur among poultry or wild birds in a number of countries in Asia, parts of Europe, and recently in Africa, transmission to humans has been rare. If the virus mutates to a form that can be transmitted from human to human, it has the potential to spread rapidly worldwide. If such an outbreak were to take

place, early quarantine and vaccination could be critical to containment.

Both the contagion and mortality rate of any mutated H5N1 virus that can be transmitted from human to human are highly speculative. AIG continues to monitor the developing facts. A significant global outbreak could have a material adverse effect on AIG s life insurance business operating results and liquidity from increased mortality and morbidity rates.

ITEM 3. Legal Proceedings
General

AIG and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. See Notes 12(d), 12(g), 12(h) and 12(i) of Notes to Consolidated Financial Statements, as well as the Discussion and Analysis of Consolidated Net Losses and Loss Expense Reserve Development and Management s Discussion and Analysis of Financial Condition and Results of Operations.

2006 Regulatory Settlements

In February 2006, AIG reached a final settlement with the SEC, DOJ, NYAG and DOI. The settlements resolved outstanding litigation filed by the SEC, NYAG and DOI against AIG and concluded negotiations with these authorities and the DOJ in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. These settlements resulted in an after-tax charge of approximately $1.15 billion recorded in the fourth quarter of 2005.

As part of the settlement with the SEC, the SEC filed a civil complaint, alleging that from 2000 until 2005, AIG materially falsified its financial statements through a variety of transactions and entities in order to strengthen the appearance of its financial results to analysts and investors.

AIG, without admitting or denying the allegations in the SEC complaint, consented to the issuance of a final judgment on February 9, 2006: (a) permanently restraining and enjoining AIG from violating Section 17(a) of the Securities Act of 1933 (Securities Act) and Sections 10(b), 13(a), 13(b)(2) and 13(b)(5) and Rules 10b-5, 12b-20, 13a-1, 13a-13 and 13b2-1 of the Securities Exchange Act of 1934 (Exchange Act); (b) ordering AIG to pay disgorgement in the amount of $700 million; and (c) ordering AIG to pay a civil penalty in the amount of $100 million. These amounts have been paid into a fund under the supervision of the SEC to be available to resolve claims asserted in various civil proceedings, including shareholder lawsuits.

In February 2006, AIG and the DOJ entered into a letter agreement. In the letter agreement, the DOJ notified AIG that in its view, AIG, acting through some of its employees, violated federal criminal law in connection with misstatements in periodic financial reports that AIG filed with the SEC between 2000 and 2004 relating to certain transactions. The settlement with the DOJ consists of, among other things, AIG s cooperating with the DOJ in the DOJ s ongoing criminal investigation, accepting responsibility for certain of its actions and those of its employees relating to these transactions and paying $25 million.

Effective February 9, 2006, AIG entered into agreements with the NYAG and the DOI, settling claims under New York s Martin Act and insurance laws, among other provisions, which were originally brought by the NYAG and the DOI in a civil complaint filed on May 26, 2005. Under the agreements, $375 million was paid into a fund under the supervision of the NYAG and the DOI to be available principally to pay certain AIG insureds who purchased excess casualty policies through Marsh & McLennan Companies, Inc. or Marsh Inc. In addition, approximately $343 million will be used to compensate participating state funds in connection with the underpayment of certain workers compensation premium taxes and other assessments. In addition, AIG paid $100 million as a fine to the State of New York.

As part of these settlements, AIG has agreed to retain for a period of three years an independent consultant who will conduct a review that will include the adequacy of AIG s internal controls over financial reporting and the remediation plan that AIG has implemented as a result of its own internal review.

PNC Settlement

In November 2004, AIG and AIGFP reached a final settlement with the SEC, the Fraud Section of the DOJ and the United States Attorney for the Southern District of Indiana with respect to issues arising from certain structured transactions entered into with Brightpoint, Inc. and The PNC Financial Services Group, Inc. (PNC), the marketing of transactions similar to the PNC transactions and related matters.

As part of the settlement, the SEC filed against AIG a civil complaint, based on the conduct of AIG primarily through AIGFP, alleging violations of certain antifraud provisions of the federal securities laws and for aiding and abetting violations of reporting and record keeping provisions of those laws. AIG, without admitting or denying the allegations in the SEC complaint, consented to the issuance of a final judgment perma-

nently enjoining it and its employees and related persons from violating certain provisions of the Exchange Act, Exchange Act Rules and the Securities Act, ordering disgorgement of fees it received in the PNC transactions and providing for AIG to establish a transaction review committee to review the appropriateness of certain future transactions and to retain an independent consultant to examine certain transactions entered into between 2000 and 2004 and review the policies and procedures of the transaction review committee. The independent consultant has a broad mandate to review transactions entered into by AIG during this period. The review of the independent consultant is now ongoing and AIG cannot at this time predict the outcome of this review.

The DOJ filed against AIGFP PAGIC Equity Holding Corp. (AIGFP PAGIC), a wholly-owned subsidiary of AIGFP, a criminal complaint alleging that AIGFP PAGIC violated federal securities laws by aiding and abetting securities law violations by PNC, in connection with a transaction entered into in 2001 with PNC that was intended to enable PNC to remove certain assets from its balance sheet.

The settlement with the DOJ consists of separate agreements with AIG and AIGFP and a complaint filed against, and deferred prosecution agreement with, AIGFP PAGIC. Under the terms of the settlement, AIGFP paid a monetary penalty of $80 million. On January 17, 2006, the court approved an order dismissing the complaint with prejudice. The obligations of AIG, AIGFP and AIGFP PAGIC under the DOJ agreements relate principally to cooperating with the DOJ and other federal agencies in connection with their related investigations.

Investigations of Insurance Practices

Regulators from several states have commenced investigations into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. Various parties, including insureds and shareholders, have also asserted putative class action and other claims against AIG or its subsidiaries alleging, among other things, violations of the antitrust and federal securities laws, and AIG expects that additional claims may be made. Pursuant to the settlements with the NYAG and the DOI, $375 million was paid into a fund under the supervision of the NYAG and the DOI to be available principally to pay certain AIG insureds who purchased excess casualty policies through Marsh Inc. In addition, approximately $343 million will be used to compensate participating states in connection with the underpayment of certain workers compensation premium taxes and other assessments. It is likely that many of the claims arising from state investigations, as well as claims made by insureds, will be settled using these funds.

Various federal and state regulatory agencies are reviewing certain other transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries. AIG has cooperated, and will continue to cooperate, with all these investigations, including by producing documents and other information in response to the subpoenas.

Pending Litigation

A number of lawsuits have been filed regarding the subject matter of the investigations of insurance brokerage practices, including derivative actions, individual actions and class actions under the federal securities laws, Racketeer Influenced and Corrupt Organizations Act (RICO), Employee Retirement Income Security Act (ERISA) and state common and corporate laws in both federal and state courts, including the federal district court in the United States District Court for the Southern District of New York (Southern District of New York), in the Commonwealth of Massachusetts Superior Court and in the Delaware Chancery Court. All of these actions generally allege that AIG and its subsidiaries violated the law by allegedly concealing a scheme to rig bids and steer business between insurance companies and insurance brokers.

Since October 19, 2004, AIG or its subsidiaries have been named as a defendant in fifteen complaints that were filed in federal court and two that were originally filed in state court (Massachusetts and Florida) and removed to federal court. These cases generally allege that AIG and its subsidiaries violated federal and various state antitrust laws, as well as federal RICO laws, various state deceptive and unfair practice laws and certain state laws governing fiduciary duties. The alleged basis of these claims is that there was a conspiracy between insurance companies and insurance brokers with regard to the use of contingent commission agreements, bidding practices, and other broker-related conduct concerning the coverage in certain sectors of the insurance industry. The Judicial Panel on Multidistrict Litigation entered an order on February 17, 2005 consolidating most of these cases and transferring them to the United States District Court for the District of New Jersey (District of New Jersey). The remainder of these cases have been transferred to the District of New Jersey. On August 15, 2005, the plaintiffs in the multidistrict litigation filed a Corrected First Consolidated Amended Commercial Class Action Complaint, which, in addition to the previously named AIG defendants, names new AIG subsidiaries as defendants. Also on August 15, 2005, AIG and two subsidiaries were named as defendants in a Corrected First Consolidated Amended Employee Benefits Class Action Complaint filed in the District of New Jersey, which asserts similar

claims with respect to employee benefits insurance and a claim under ERISA on behalf of putative classes of employers and employees.

On November 29, 2005, the AIG defendants, along with other insurer defendants and the broker defendants filed motions to dismiss both the Commercial and Employee Benefits Complaints. Plaintiffs have filed a motion for class certification in the consolidated action. In addition, complaints were filed against AIG and several of its subsidiaries in Massachusetts and Florida state courts, which have both been stayed. In the Florida action, the plaintiff has filed a petition for a writ of certiorari with the District Court of Appeals of the State of Florida, Fourth District with respect to the stay order. On February 9, 2006, a complaint against AIG and several of its subsidiaries was filed in Texas state court, making claims similar to those in the federal cases above.

In April and May 2005, amended complaints were filed in the consolidated derivative and securities cases, as well as in one of the ERISA lawsuits, pending in the Southern District of New York adding allegations concerning AIG s accounting treatment for non-traditional insurance products. In September 2005, a second amended complaint was filed in the consolidated securities cases adding allegations concerning AIG s First Restatement. Also in September 2005, a new securities action complaint was filed in the Southern District of New York, asserting claims premised on the same allegations made in the consolidated cases. Motions to dismiss have been filed in the securities actions. In September 2005, a consolidated complaint was filed in the ERISA case pending in the Southern District of New York. Motions to dismiss have been filed in that ERISA case. Also in April 2005, new derivative actions were filed in the Delaware Chancery Court, and in July and August 2005, two new derivative actions were filed in the Southern District of New York asserting claims duplicative of the claims made in the consolidated derivative action.

In July 2005, a second amended complaint was filed in the consolidated derivative case in the Southern District of New York, expanding upon accounting-related allegations based upon AIG s First Restatement, and in August 2005, an amended consolidated complaint was filed. In June 2005, the derivative cases in Delaware were consolidated. AIG s Board of Directors has appointed a special committee of independent directors to review the matters asserted in the derivative complaints. The courts have approved agreements staying the derivative cases pending in the Southern District of New York and in the Delaware Chancery Court while the special committee of independent directors performs its work. In September 2005, a shareholder filed suit in the Delaware Chancery Court seeking documents relating to some of the allegations made in the derivative suits. AIG filed a motion to dismiss in October 2005.

In late 2002, a derivative action was filed in the Delaware Chancery Court in connection with AIG s transactions with certain entities affiliated with Starr and SICO. In May 2005, the plaintiff filed an amended complaint which adds additional claims premised on allegations relating to insurance brokerage practices and AIG s non-traditional insurance products. Plaintiffs in that case have agreed to dismiss newly added allegations unrelated to transactions with entities affiliated with Starr and SICO without prejudice to pursuit of these claims in the separate derivative actions described above. On February 16, 2006, the Delaware Chancery Court entered an order dismissing the litigation with prejudice with respect to AIG s outside directors and dismissing the claims against the remaining AIG defendants without prejudice.

On July 8, 2005, SICO filed a complaint against AIG in the Southern District of New York. The complaint alleges that AIG is in the possession of items, including artwork, which SICO claims it owns, and seeks an order causing AIG to release those items as well as actual, consequential, punitive and exemplary damages. On September 27, 2005, AIG filed its answer to SICO s complaint denying SICO s allegations and asserting counter-claims for breach of contract, unjust enrichment, conversion and breach of fiduciary duty relating to SICO s breach of its commitment to use its AIG shares for the benefit of AIG and its employees. On October 17, 2005, SICO replied to AIG s counter-claims and additionally sought a judgment declaring that SICO is neither a control person nor an affiliate of AIG for the purposes of Schedule 13D under the Exchange Act, and Rule 144 under the Securities Act, respectively. AIG responded to the SICO claims on November 7, 2005.

Effect on AIG

In the opinion of AIG management, AIG s ultimate liability for the unresolved matters referred to above is not likely to have a material adverse effect on AIG s consolidated financial condition, although it is possible that the effect would be material to AIG s consolidated results of operations for an individual reporting period.

PART II

ITEM 6. Selected Financial Data
AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

AIG has restated its financial statements for each of 2004, 2003, 2002, 2001 and 2000. The restated financial statements reflect corrections of errors, misapplications of GAAP and changes to conform to the current presentation. The Selected Consolidated Financial Data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included elsewhere herein. A reconciliation of previously reported financial statements to the restated financial statements follows the table below.

Years Ended December 31, *(in millions, except per share data)*	2004 (Restated)	2003 (Restated)	2002 (Restated)	2001 (Restated)	2000 (Restated)
Revenues*(a)*:					
Premiums and other considerations	$ 66,625	$ 54,802	$ 44,289	$ 38,261	$ 34,047
Net investment income	18,465	15,508	13,593	13,002	12,719
Realized capital gains (losses)	44	(442)	(1,653)	(910)	(240)
Other revenues*(b)*	12,532	9,553	9,942	9,605	10,174
Total revenues	97,666	79,421	66,171	59,958	56,700
Benefits and expenses:					
Incurred policy losses and benefits*(c)*	58,360	46,034	40,005	33,984	30,627
Insurance acquisition and other operating expenses	24,461	21,480	18,358	18,040	16,819
Acquisition, restructuring and related charges				2,017	315
Total benefits and expenses	82,821	67,514	58,363	54,041	47,761
Income before income taxes, minority interest and cumulative effect of accounting changes*(d)*	14,845	11,907	7,808	5,917	8,939
Income taxes	4,407	3,556	1,919	1,594	2,700
Income before minority interest and cumulative effect of accounting changes	10,438	8,351	5,889	4,323	6,239
Minority interest	(455)	(252)	(160)	(101)	(195)
Income before cumulative effect of accounting changes	9,983	8,099	5,729	4,222	6,044
Cumulative effect of accounting changes, net of tax	(144)	9		(136)	
Net income	9,839	8,108	5,729	4,086	6,044
Earnings per common share*(e)*:					
Basic					
Income before cumulative effect of accounting changes	3.83	3.10	2.20	1.61	2.32
Cumulative effect of accounting changes, net of tax	(0.06)			(0.05)	
Net income	3.77	3.10	2.20	1.56	2.32
Diluted*(f)*					
Income before cumulative effect of accounting changes	3.79	3.07	2.17	1.59	2.29
Cumulative effect of accounting changes, net of tax	(0.06)			(0.05)	
Net income	3.73	3.07	2.17	1.54	2.29
Dividends per common share*(g)*	0.29	0.24	0.18	0.16	0.14
Total assets	801,145	675,602	561,598	490,614	422,709
Long-term debt and commercial paper*(h)*					

Guaranteed by AIG		8,498		7,469		7,144		8,141		3,855
Liabilities connected to trust preferred stock		1,489		1,682						
Matched/not guaranteed by AIG		86,912		71,198		63,866		56,073		49,874
Total Liabilities*(i)*		721,273		606,180		501,163		438,551		374,056
Shareholders equity	$	79,673	$	69,230	$	58,303	$	49,881	$	45,239

(a) Represents the sum of General Insurance net premiums earned, Life Insurance & Retirement Services GAAP premiums, net investment income, Financial Services interest, lease and finance charges, Asset Management advisory and management fees and net investment income with respect to guaranteed investment contracts, and realized capital gains (losses).

(b) Includes the unrealized gain (loss) attributable to hedging activities that do not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For 2004, 2003, 2002, 2001 and 2000, respectively, the amounts included are $(122) million, $(1.01) billion, $220 million, $56 million and $1.17 billion. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements .

(c) Includes fourth quarter 2004 charge of $850 million attributable to change in estimate for asbestos and environmental reserves.

(d) Includes catastrophe losses of $1.16 billion in 2004, net loss reserve charge of $2.1 billion in 2002 and World Trade Center losses of $900 million in 2001.

(e) Per share amounts for all periods presented reflect the adoption of Statement of Financial Accounting Standards No. 128, Earnings per Share.

(f) Assumes conversion of contingently convertible bonds due to the adoption of EITF Issue No. 04-8 Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share.

(g) Dividends have not been restated to reflect dividends paid by AGC which was acquired by AIG on August 29, 2001.

(h) Including that portion of long-term debt maturing in less than one year. See also Note 9 of Notes to Consolidated Financial Statements.

(i) Includes $2.1 billion, $2.2 billion and $1.4 billion for the years ended 2002, 2001 and 2000, respectively, of other liabilities connected to the consolidation of the Muni Tender Option Bond Program trusts. See also Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements .

The following tables present the effect of the adjustments resulting from the Second Restatement on the Condensed Consolidated Balance Sheets and the Consolidated Statements of Income as of and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000. See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements on pages 35 through 48 for a description of each transaction, accounting entry or entity category resulting in the adjustments and for analyses of the effect of the adjustments on the principal consolidated balance sheet and statement of income accounts affected. See also Note 2 of Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2004 (in millions)	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Assets:					
Total investments, financial services assets and cash	$ 638,838	$ 886	$ 639,724	$ 566	$ 640,290
Investment income due and accrued	5,588	(32)	5,556		5,556
Premiums and insurance balances receivable, net of allowance of $690	15,137	(349)	14,788	834	15,622
Reinsurance assets	19,958	(101)	19,857	(244)	19,613
Deferred policy acquisition costs	29,736	4	29,740	77	29,817
Other assets	15,322	961	16,283	(158)	16,125
All other assets	74,081	13	74,094	28	74,122
Total assets	798,660	1,382	800,042	1,103	801,145
Liabilities:					
Reserve for losses and loss expenses	62,371		62,371	(493)	61,878
Reserve for unearned premiums	23,094		23,094	306	23,400
Future policy benefits for life and accident and health insurance contracts	104,737	19	104,756	(16)	104,740
Policyholders contract deposits	216,655	(181)	216,474		216,474
Funds held by companies under reinsurance treaties	3,404		3,404		3,404
Deferred income taxes payable	7,042	(274)	6,768	(180)	6,588
Financial services securities sold under agreements to repurchase, at contract value	21,264	2,317	23,581		23,581
Financial services unrealized loss on swaps, options and forward transactions	18,132	(521)	17,611	(1,626)	15,985
Notes, bonds, loans and mortgages payable	65,162	23	65,185	1,613	66,798
Other liabilities	23,611	139	23,750	1,305	25,055
All other liabilities	172,382	(61)	172,321	1,049	173,370
Total liabilities	717,854	1,461	719,315	1,958	721,273
Preferred shareholders equity in subsidiary companies	199		199		199
Total shareholders equity	80,607	(79)	80,528	(855)	79,673
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 798,660	$ 1,382	$ 800,042	$ 1,103	$ 801,145

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2003 *(in millions)*	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Assets:					
Total investments, financial services assets and cash	$ 519,708	$ 702	$ 520,410	$ (270)	$ 520,140
Investment income due and accrued	4,612	(19)	4,593		4,593
Premiums and insurance balances receivable, net of allowance of $568	13,189	(349)	12,840	989	13,829
Reinsurance assets	20,948	(101)	20,847	(202)	20,645
Deferred policy acquisition costs	25,920	3	25,923	71	25,994
Other assets	14,190	800	14,990	(167)	14,823
All other assets	75,586	(2)	75,584	(6)	75,578
Total assets	674,153	1,034	675,187	415	675,602
Liabilities:					
Reserve for losses and loss expenses	52,381		52,381	(510)	51,871
Reserve for unearned premiums	20,910		20,910	325	21,235
Future policy benefits for life and accident and health insurance contracts	92,912	10	92,922	(7)	92,915
Policyholders contract deposits	171,917	(70)	171,847	(19)	171,828
Funds held by companies under reinsurance treaties	3,043		3,043		3,043
Income taxes payable:					
Current	366	(48)	318	(37)	281
Deferred	4,633	(184)	4,449	(212)	4,237
Financial services securities sold under agreements to repurchase, at contract value	15,813	2,080	17,893		17,893
Financial services unrealized loss on swaps, options and forward transactions	14,658	(303)	14,355	(1,115)	13,240
Notes, bonds, loans and mortgages payable	57,252	(412)	56,840	552	57,392
Other liabilities	21,191	89	21,280	1,421	22,701
All other liabilities	148,855	(41)	148,814	730	149,544
Total liabilities	603,931	1,121	605,052	1,128	606,180
Preferred shareholders equity in subsidiary companies	192		192		192
Total shareholders equity	70,030	(87)	69,943	(713)	69,230
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 674,153	$ 1,034	$ 675,187	$ 415	$ 675,602

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2002 *(in millions)*	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Assets:					
Total investments, financial services assets and cash	$ 428,378	$ 170	$ 428,548	$ (390)	$ 428,158
Investment income due and accrued	4,014	(12)	4,002		4,002
Premiums and insurance balances receivable, net of allowance of $440	11,858	(350)	11,508	533	12,041
Reinsurance assets	23,051	(101)	22,950	(168)	22,782
Deferred policy acquisition costs	21,845	3	21,848	74	21,922
Other assets	12,696	418	13,114	(146)	12,968
All other assets	59,714	(26)	59,688	37	59,725
Total assets	561,556	102	561,658	(60)	561,598
Liabilities:					
Reserve for losses and loss expenses	47,095		47,095	(421)	46,674
Reserve for unearned premiums	16,299		16,299	257	16,556
Future policy benefits for life and accident and health insurance contracts	72,284	(14)	72,270	11	72,281
Policyholders contract deposits	142,111	(113)	141,998		141,998
Funds held by companies under reinsurance treaties	2,211		2,211		2,211
Deferred income taxes payable	3,906	(198)	3,708	(298)	3,410
Financial services securities sold under agreements to repurchase, at contract value	9,359	992	10,351		10,351
Financial services unrealized loss on swaps, options and forward transactions	11,658	(98)	11,560	(39)	11,521
Notes, bonds, loans and mortgages payable	48,123	(471)	47,652	(604)	47,048
Other liabilities	18,878	56	18,934	779	19,713
All other liabilities	128,674	(5)	128,669	731	129,400
Total liabilities	500,598	149	500,747	416	501,163
Preferred shareholders equity in subsidiary companies	2,153	(21)	2,132		2,132
Total shareholders equity	58,805	(26)	58,779	(476)	58,303
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 561,556	$ 102	$ 561,658	$ (60)	$ 561,598

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2001 *(in millions)*	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Assets:					
Total investments, financial services assets and cash	$ 360,483	$ (717)	$ 359,766	$ (1,018)	$ 358,748
Investment income due and accrued	3,522	4	3,526		3,526
Premiums and insurance balances receivable, net of allowance of $338	10,996	(342)	10,654	(41)	10,613
Reinsurance assets	20,818	(81)	20,737	(152)	20,585
Deferred policy acquisition costs	19,030	2	19,032	78	19,110
Other assets	12,965	592	13,557	(136)	13,421
All other assets	64,633	(59)	64,574	37	64,611
Total assets	492,447	(601)	491,846	(1,232)	490,614
Liabilities:					
Reserve for losses and loss expenses	41,638		41,638	(432)	41,206
Reserve for unearned premiums	12,937		12,937	295	13,232
Future policy benefits for life and accident and health insurance contracts	64,853		64,853	(10)	64,843
Policyholders contract deposits	119,380	(3)	119,377		119,377
Funds held by companies under reinsurance treaties	1,582		1,582		1,582
Deferred income taxes payable	2,175	(195)	1,980	(234)	1,746
Financial services securities sold under agreements to repurchase, at contract value	11,478		11,478		11,478
Financial services unrealized loss on swaps, options and forward transactions	10,379	(40)	10,339	(29)	10,310
Notes, bonds, loans and mortgages payable	36,833	(92)	36,741	(812)	35,929
Other liabilities	16,743	13	16,756	118	16,874
All other liabilities	121,719	9	121,728	246	121,974
Total liabilities	439,717	(308)	439,409	(858)	438,551
Preferred shareholders equity in subsidiary companies	2,202	(20)	2,182		2,182
Total shareholders equity	50,528	(273)	50,255	(374)	49,881
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 492,447	$ (601)	$ 491,846	$ (1,232)	$ 490,614

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEET

December 31, 2000 *(in millions)*	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Assets:					
Total investments, financial services assets and cash	$ 300,685	$ (295)	$ 300,390	$ (238)	$ 300,152
Investment income due and accrued	3,413	2	3,415		3,415
Premiums and insurance balances receivable, net of allowance of $278	8,615	(326)	8,289	(275)	8,014
Reinsurance assets	17,579	(41)	17,538	(170)	17,368
Deferred policy acquisition costs	16,544	1	16,545	73	16,618
Other assets	13,981	278	14,259	(134)	14,125
All other assets	63,034	(45)	62,989	28	63,017
Total assets	423,851	(426)	423,425	(716)	422,709
Liabilities:					
Reserve for losses and loss expenses	38,111		38,111	(176)	37,935
Reserve for unearned premiums	12,037		12,037	21	12,058
Future policy benefits for life and accident and health insurance contracts	51,405		51,405	(10)	51,395
Policyholders contract deposits	99,327	140	99,467		99,467
Funds held by companies under reinsurance treaties	395		395		395
Deferred income taxes payable	2,509	(202)	2,307	(177)	2,130
Financial services securities sold under agreements to repurchase, at contract value	11,092		11,092		11,092
Financial services unrealized loss on swaps, options and forward transactions	8,914		8,914	7	8,921
Notes, bonds, loans and mortgages payable	26,981	8	26,989	1	26,990
Other liabilities	12,773	9	12,782	(184)	12,598
All other liabilities	110,869	(7)	110,862	213	111,075
Total liabilities	374,413	(52)	374,361	(305)	374,056
Preferred shareholders equity in subsidiary companies	3,414		3,414		3,414
Total shareholders equity	46,024	(374)	45,650	(411)	45,239
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 423,851	$ (426)	$ 423,425	$ (716)	$ 422,709

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share data)	Year Ended December 31, 2004				
	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Revenues:					
Premiums and other considerations	$ 66,593	$ 5	$ 66,598	$ 27	$ 66,625
Net investment income	18,434	(12)	18,422	43	18,465
Realized capital gains (losses)	(24)	42	18	26	44
Other revenues	12,984	(343)	12,641	(109)	12,532
Total revenues	97,987	(308)	97,679	(13)	97,666
Benefits and expenses:					
Incurred policy losses and benefits	58,313	21	58,334	26	58,360
Insurance acquisition and other operating expenses	24,724	(351)	24,373	88	24,461
Total benefits and expenses	83,037	(330)	82,707	114	82,821
Income before income taxes, minority interest and cumulative effect of an accounting change	14,950	22	14,972	(127)	14,845
Income Taxes:					
Current	2,676	(90)	2,586	7	2,593
Deferred	1,944	(127)	1,817	(3)	1,814
	4,620	(217)	4,403	4	4,407
Income before minority interest and cumulative effect of an accounting change	10,330	239	10,569	(131)	10,438
Minority interest	(455)		(455)		(455)
Income before cumulative effect of an accounting change	9,875	239	10,114	(131)	9,983
Cumulative effect of an accounting change, net of tax	(144)		(144)		(144)
Net Income	$ 9,731	$ 239	$ 9,970	$ (131)	$ 9,839

Earnings per common share:										
Basic										
Income before cumulative effect of an accounting change	$	3.79	$	0.09	$	3.88	$	(0.05)	$	3.83
Cumulative effect of an accounting change, net of tax		(0.06)				(0.06)				(0.06)
Net Income		3.73		0.09		3.82		(0.05)		3.77
Diluted										
Income before cumulative effect of an accounting change	$	3.75	$	0.09	$	3.84	$	(0.05)	$	3.79
Cumulative effect of an accounting change, net of tax		(0.06)				(0.06)				(0.06)
Net Income		3.69		0.09		3.78		(0.05)		3.73
Average shares outstanding:										
Basic		2,606				2,606				2,606
Diluted		2,637				2,637				2,637

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME (continued)

	Year Ended December 31, 2003				
(in millions, except per share data)	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Revenues:					
Premiums and other considerations	$ 54,880	$ 5	$ 54,885	$ (83)	$ 54,802
Net investment income	15,468	(7)	15,461	47	15,508
Realized capital gains (losses)	(620)	170	(450)	8	(442)
Other revenues	9,718	(304)	9,414	139	9,553
Total revenues	79,446	(136)	79,310	111	79,421
Benefits and expenses:					
Incurred policy losses and benefits	46,145	23	46,168	(134)	46,034
Insurance acquisition and other operating expenses	21,646	(267)	21,379	101	21,480
Total benefits and expenses	67,791	(244)	67,547	(33)	67,514
Income before income taxes, minority interest and cumulative effect of an accounting change	11,655	108	11,763	144	11,907
Income Taxes:					
Current	2,786	(44)	2,742	(1)	2,741
Deferred	617	108	725	90	815
	3,403	64	3,467	89	3,556
Income before minority interest and cumulative effect of an accounting change	8,252	44	8,296	55	8,351
Minority interest	(252)		(252)		(252)
Income before cumulative effect of an accounting change	8,000	44	8,044	55	8,099
Cumulative effect of an accounting change, net of tax	9		9		9
Net Income	$ 8,009	$ 44	$ 8,053	$ 55	$ 8,108
Earnings per common share:					
Basic					
Income before cumulative effect of an accounting change	$ 3.07	$ 0.01	$ 3.08	$ 0.02	$ 3.10
Cumulative effect of an accounting change, net of tax					
Net Income	3.07	0.01	3.08	0.02	3.10
Diluted					
	$ 3.04	$ 0.01	$ 3.05	$ 0.02	$ 3.07

Income before cumulative effect of an accounting change					
Cumulative effect of an accounting change, net of tax					
Net Income	3.04	0.01	3.05	0.02	3.07
Average shares outstanding:					
Basic	2,610		2,610		2,610
Diluted	2,637		2,637		2,637

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME (continued)

	Year Ended December 31, 2002				
(in millions, except per share data)	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Revenues:					
Premiums and other considerations	$ 44,259	$ 4	$ 44,263	$ 26	$ 44,289
Net investment income	13,721	(70)	13,651	(58)	13,593
Realized capital gains (losses)	(1,298)	(386)	(1,684)	31	(1,653)
Other revenues	9,778	139	9,917	25	9,942
Total revenues	66,460	(313)	66,147	24	66,171
Benefits and expenses:					
Incurred policy losses and benefits	39,987	(14)	39,973	32	40,005
Insurance acquisition and other operating expenses	18,491	(178)	18,313	45	18,358
Total benefits and expenses	58,478	(192)	58,286	77	58,363
Income before income taxes, minority interest and cumulative effect of an accounting change	7,982	(121)	7,861	(53)	7,808
Income Taxes:					
Current	1,682	124	1,806	2	1,808
Deferred	274	(169)	105	6	111
	1,956	(45)	1,911	8	1,919
Income before minority interest and cumulative effect of an accounting change	6,026	(76)	5,950	(61)	5,889
Minority interest	(160)		(160)		(160)
Income before cumulative effect of an accounting change	5,866	(76)	5,790	(61)	5,729
Cumulative effect of an accounting change, net of tax					
Net Income	$ 5,866	$ (76)	$ 5,790	$ (61)	$ 5,729
Earnings per common share:					
Basic					
Income before cumulative effect of an accounting change	$ 2.25	$ (0.03)	$ 2.22	$ (0.02)	$ 2.20
Cumulative effect of an accounting change, net of tax					

Net Income		2.25		(0.03)		2.22		(0.02)		2.20
Diluted										
Income before cumulative effect of an accounting change	$	2.22	$	(0.03)	$	2.19	$	(0.02)	$	2.17
Cumulative effect of an accounting change, net of tax										
Net Income		2.22		(0.03)		2.19		(0.02)		2.17
Average shares outstanding:										
Basic		2,612				2,612				2,612
Diluted		2,643				2,643				2,643

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME (continued)

(in millions, except per share data)	Year Ended December 31, 2001				
	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Revenues:					
Premiums and other considerations	$ 38,532	$ 1	$ 38,533	$ (272)	$ 38,261
Net investment income	13,015	(9)	13,006	(4)	13,002
Realized capital gains (losses)	(919)	9	(910)		(910)
Other revenues	9,542	52	9,594	11	9,605
Total revenues	60,170	53	60,223	(265)	59,958
Benefits and expenses:					
Incurred policy losses and benefits	34,249		34,249	(265)	33,984
Insurance acquisition and other operating expenses	17,990	7	17,997	43	18,040
Acquisition restructuring and related charges	2,017		2,017		2,017
Total benefits and expenses	54,256	7	54,263	(222)	54,041
Income before income taxes, minority interest and cumulative effect of accounting changes	5,914	46	5,960	(43)	5,917
Income Taxes:					
Current	1,540	61	1,601	(10)	1,591
Deferred	(35)	27	(8)	11	3
	1,505	88	1,593	1	1,594
Income before minority interest and cumulative effect of accounting changes	4,409	(42)	4,367	(44)	4,323
Minority interest	(101)		(101)		(101)
Income before cumulative effect of accounting changes	4,308	(42)	4,266	(44)	4,222
Cumulative effect of accounting changes, net of tax	(136)		(136)		(136)
Net Income	$ 4,172	$ (42)	$ 4,130	$ (44)	$ 4,086
Earnings per common share:					
Basic					
Income before cumulative effect of accounting changes	$ 1.64	$ (0.01)	$ 1.63	$ (0.02)	$ 1.61
Cumulative effect of accounting changes, net of tax	(0.05)		(0.05)		(0.05)
Net Income	1.59	(0.01)	1.58	(0.02)	1.56
Diluted					
	$ 1.62	$ (0.01)	$ 1.61	$ (0.02)	$ 1.59

Income before cumulative effect of accounting changes					
Cumulative effect of accounting changes, net of tax	(0.05)		(0.05)		(0.05)
Net Income	1.57	(0.01)	1.56	(0.02)	1.54
Average shares outstanding:					
Basic	2,621		2,621		2,621
Diluted	2,659		2,659		2,659

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME (continued)

	Year Ended December 31, 2000				
(in millions, except per share data)	As Previously Reported	Initial Adjustments in the Second Restatement	As Restated for the Initial Adjustments	Additional Adjustments in the Second Restatement	As Restated
Revenues:					
Premiums and other considerations	$ 34,027	$ 1	$ 34,028	$ 19	$ 34,047
Net investment income	12,723	(4)	12,719		12,719
Realized capital gains (losses)	(239)	11	(228)	(12)	(240)
Other revenues	10,340	(66)	10,274	(100)	10,174
Total revenues	56,851	(58)	56,793	(93)	56,700
Benefits and expenses:					
Incurred policy losses and benefits	30,609	16	30,625	2	30,627
Insurance acquisition and other operating expenses	16,752	32	16,784	35	16,819
Acquisition restructuring and related charges	315		315		315
Total benefits and expenses	47,676	48	47,724	37	47,761
Income before income taxes, minority interest and cumulative effect of accounting changes	9,175	(106)	9,069	(130)	8,939
Income Taxes:					
Current	1,529	23	1,552	(2)	1,550
Deferred	1,310	(91)	1,219	(69)	1,150
	2,839	(68)	2,771	(71)	2,700
Income before minority interest and cumulative effect of accounting changes	6,336	(38)	6,298	(59)	6,239
Minority interest	(195)		(195)		(195)
Income before cumulative effect of accounting changes	6,141	(38)	6,103	(59)	6,044
Cumulative effect of accounting changes, net of tax					
Net Income	$ 6,141	$ (38)	$ 6,103	$ (59)	$ 6,044
Earnings per common share:					
Basic					
Income before cumulative effect of accounting changes	$ 2.36	$ (0.02)	$ 2.34	$ (0.02)	$ 2.32
Cumulative effect of accounting changes, net of tax					

Net Income		2.36		(0.02)		2.34		(0.02)		2.32
Diluted										
Income before cumulative effect of accounting changes	$	2.33	$	(0.02)	$	2.31	$	(0.02)	$	2.29
Cumulative effect of accounting changes, net of tax										
Net Income		2.33		(0.02)		2.31		(0.02)		2.29
Average shares outstanding:										
Basic		2,607				2,607				2,607
Diluted		2,638				2,638				2,638

See Management s Discussion and Analysis of Financial Condition and Results of Operations Restatements of Previously Issued Financial Statements . See also Note 2 of Notes to Consolidated Financial Statements.

ITEM 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, AIG presents its operations in the way it believes will be most meaningful. Gross premiums written, statutory underwriting profit (loss) and combined ratios are presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance used in the insurance industry and thus allow more meaningful comparisons with AIG s insurance competitors. AIG has also incorporated into this discussion a number of cross-references to additional information included throughout this 2004 Annual Report on Form 10-K/A to assist readers seeking related information on a particular subject.

INDEX TO FINANCIAL INFORMATION

MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations is designed to provide the reader a narrative with respect to AIG s operations, financial condition and liquidity and certain other significant matters.

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Cautionary Statement Regarding Projections and Other Information About Future Events

This 2004 Annual Report on Form 10-K/A and other publicly available documents may include, and AIG s officers and representatives may from time to time make, projections concerning financial information and statements concerning future economic performance and events, plans and objectives relating to management, operations, products and services, and assumptions underlying these projections and statements. These projections and statements are not historical facts but instead represent only AIG s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG s control. These projections and statements may address, among other things, the status and potential future outcome of the current regulatory and civil proceedings against AIG and their potential effect on AIG s businesses, financial position, results of operations, cash flows and liquidity, the effect of the credit rating downgrades on AIG s businesses and competitive position, the unwinding and resolving of various relationships between AIG and Starr and SICO, and AIG s strategy for growth, product development, market position, financial results and reserves. It is possible that AIG s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements. Factors that could cause AIG s actual results to differ, possible materially, from those in the specific projections and statements are discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Certain Factors Affecting AIG s Business in Item 1, Part I of this 2004 Annual Report on Form 10-K/A. AIG is not under any obligation (and expressly disclaims any such obligations) to update or alter any projection or other statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

Restatements of Previously Issued Financial Statements

In connection with preparation of AIG s consolidated financial statements included in the 2004 Annual Report on Form 10-K, AIG s current management initiated an internal review of AIG s books and records, which was substantially expanded in mid-March 2005. As a result of the internal review, AIG concluded that the accounting for certain transactions and certain relationships needed to be restated or adjusted. AIG restated the accounting for certain transactions and certain relationships for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003 (the First Restatement).

As announced on November 9, 2005, AIG identified certain errors, the preponderance of which were identified during the remediation of material weaknesses in internal controls referred to in the Explanatory Note, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting. AIG also announced it was correcting errors that were identified since the First Restatement, including those related to the accounting for certain payments received from aircraft and engine manufacturers by ILFC, which were originally corrected in AIG s June 2005 Form 10-Q. The adjustments to correct the foregoing errors are referred to in this 2004 Annual Report on Form 10-K/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal controls over financial reporting referred to in the Explanatory Note, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in DBG. As a result, AIG is including further adjustments (the Additional Adjustments) in its restatement of the consolidated financial statements and financial statement schedules for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of the preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and will restate the first three quarters of 2005. The Initial Adjustments and the Additional Adjustments are referred to herein as the Second Restatement. AIG s quarterly report on Form 10-Q for the quarter ended September 30, 2005 (September 2005 Form 10-Q) will not be amended because the Additional Adjustments to the financial statements included therein are not material to those financial statements.

The financial information that is included in this 2004 Annual Report on Form 10-K/ A has been restated as part of the First Restatement and the Second Restatement (the Restatements).

(a) First Restatement

Subpoenas. In February 2005, AIG received subpoenas from the Office of the Attorney General for the State of New York (NYAG) and the Securities and Exchange Commission (SEC) relating to investigations into the use of non-traditional insurance products and certain assumed reinsurance transactions and AIG s accounting for such transactions. The United States Department of Justice and various state regulators are also investigating related issues. During these investigations, in March 2005, AIG s then Chairman and Chief Executive Officer retired. In addition, AIG s then Chief Financial Officer was terminated for failure to cooperate in the investigations. Subsequently, certain other AIG executives, including its former comptroller, were terminated for similar reasons. On May 26, 2005, the NYAG and the New York Superintendent of Insurance filed a civil complaint against AIG relating to these investigations. For more information on these investigations, see Item 3. Legal Proceedings.

Internal Review. The internal review, conducted under the direction of current senior management with the oversight of the Audit Committee of the Board of Directors, spanned AIG s major business units globally, and included a review of information and a number of transactions from 2000 to 2004. In certain cases, items in periods prior to 2000 were examined due to the nature of the transactions under review. The business units subject to review were Domestic General Insurance, Foreign General Insurance, Reinsurance, Financial Services, Domestic and Foreign Life Insurance & Retirement Services and Asset Management. The internal review encompassed AIG s books and records, thousands of files and e-mails and interviews with current and former employees and members of management. Management believes that the scope and process of its internal review was sufficient to identify issues of a material nature that could affect AIG s financial statements.

AIG s internal review was complemented by investigations by outside counsel for AIG and for the Audit Committee of the Board of Directors. PricewaterhouseCoopers LLP, an independent registered public accounting firm (PwC or independent auditors), was consulted on the scope of the internal review for certain matters and reviewed the results of the internal review.

As a result of the findings of the internal review, together with the results of investigations conducted by outside counsel at the request of AIG s Audit Committee and in consultation with AIG s independent auditors, AIG concluded that the ac-

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

counting for certain transactions and certain relationships needed to be restated or adjusted.

First Restatement. AIG restated its financial statements for the years ended December 31, 2003, 2002, 2001 and 2000, the quarters ended March 31, June 30 and September 30, 2004 and 2003 and the quarter ended December 31, 2003. AIG s previously issued financial statements for these and prior periods should no longer be relied upon. See Selected Financial Data and Note 2 of Notes to Consolidated Financial Statements for a reconciliation of previously reported amounts to the restated amounts.

As part of its internal review, AIG evaluated the financial reporting consolidation process and the resulting financial statements as well as the appropriateness of AIG s prior accounting and reporting decisions. Based on this evaluation, the First Restatement includes corrections of errors in current or prior accounting periods for improper or inappropriate transactions or entries identified by the review. In many cases these transactions or entries appear to have had the purpose of achieving an accounting result that would enhance measures believed to be important to the financial community and may have involved documentation that did not accurately reflect the true nature of the arrangements. In certain instances, these transactions or entries may also have involved misrepresentations to members of management, regulators and AIG s independent auditors. The First Restatement includes adjustments, some of which had been previously identified but considered not to be sufficiently material to require correction. In addition, AIG has determined that certain accounts should be adjusted for the year ended December 31, 2004 to reflect changes in estimates made in the fourth quarter of 2004. The aggregate effect of these changes in estimates resulted in an after tax charge of approximately $1.19 billion. See Fourth Quarter 2004 Changes in Estimates herein and Note 1(cc) of Notes to Consolidated Financial Statements.

Details of Accounting Adjustments included in the First Restatement. The accounting adjustments relate primarily to the categories described below. Many of the adjustments that do not affect previously reported net income or consolidated shareholders equity do, however, change both the consolidated and business segment reporting of premiums, underwriting results, net investment income, realized capital gains and losses and operating income, as well as other items. Adjustments that affect reported net income and consolidated shareholders equity relate to both the timing and recognition of revenues and expenses and affect the comparison of period-to-period results. Following the description of each transaction, accounting entry or entity category is a summary of the principal consolidated statement of income and balance sheet accounts affected by the adjustments relating to that category.

Risk Transfer. To recognize the cash flows under an insurance contract as premium and losses, GAAP requires the transfer of risk. If risk transfer requirements are not met, an insurance contract is accounted for as a deposit, resulting in the recognition of cash flows under the contract as deposit assets or liabilities and not as revenues or expense. AIG has concluded, based upon its internal review, that there was insufficient risk transfer to qualify for insurance accounting for certain transactions where AIG subsidiaries either wrote direct insurance or assumed or ceded reinsurance. These transactions are now recorded using deposit accounting. The changes resulting from the change to deposit accounting affect both the consolidated balance sheet and statement of income. Detailed discussions of the principal accounts affected are provided below for each of the categories included.

Union Excess: AIG has concluded, based on documents and information identified during the course of the internal review, that reinsurance ceded to Union Excess Reinsurance Company, Ltd., a Barbados-domiciled reinsurer (Union Excess), did not result in risk transfer because of AIG s control over certain transactions undertaken directly or indirectly with Union Excess, including the timing and nature of certain commutations. Eliminating the cessions reduces reinsurance assets, effectively eliminates the inherent discount related to the loss reserves ceded under the contracts, and increases net premiums and losses. It should be noted that any income earned on the deposit assets in future periods would increase net investment income in those periods.

In addition, as a result of certain facts and circumstances related to the formation of Union Excess, as well as certain relationships with Starr International Company, Inc. (SICO), Union Excess is now included in AIG s consolidated financial statements. The facts and circumstances surrounding SICO s involvement with Union Excess were not properly reflected in AIG s books and records, were not known to all relevant AIG financial reporting personnel and, AIG now believes, were not known to AIG s independent auditors. For example, a significant portion of the ownership interests of Union Excess shareholders are protected against loss under financial arrangements with SICO. Additionally, from its formation in 1991, Union Excess has reinsured risks emanating primarily or solely from AIG subsidiaries, both directly and indirectly. Further, it appears that the employees responsible for the reinsurance related to Union Excess managed that relationship to prevent signifi cant losses or gains to Union Excess so that substantially all of the risks and rewards of the underlying reinsurance inured to AIG. This relationship allowed AIG to absorb substantially all the economic returns, which in turn caused

Union Excess to be deemed a variable interest entity (VIE). The effect of the adjustments and First Restatement relating to Union Excess on certain of AIG s consolidated statement of income and balance sheet accounts is as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	$ 386	$ 439	$ 673	$ 726	$ 251
Net investment income	259	304	233	179	140
Realized capital gains (losses)	(48)	(17)	105	39	61
Incurred policy losses and benefits	671	433	683	638	955
Insurance acquisition and other operating expenses	48	48	52	111	63
Net income	(78)	160	180	127	(368)
Consolidated Balance Sheet:					
Premiums and insurance balances receivable, net of allowance	2,417	1,923	1,477	956	119
Reinsurance assets	(5,511)	(5,815)	(5,856)	(5,382)	(4,763)
Other assets	1,607	2,549	2,760	2,561	2,327
Total shareholders equity	(951)	(873)	(1,033)	(1,213)	(1,340)

Gen Re: In December 2000 and March 2001, an AIG subsidiary entered into an assumed reinsurance transaction with a subsidiary of General Re Corporation (Gen Re) involving two tranches of $250 million each. In connection with each tranche, consolidated net premiums written and consolidated incurred policy losses and benefits increased by $250 million in the fourth quarter of 2000 (with respect to the first tranche) and the first quarter of 2001 (with respect to the second tranche). The first tranche of the transaction was commuted in November 2004, reducing premiums and reserves for losses and loss expenses by approximately $250 million in the fourth quarter 2004. AIG has concluded that the transaction was done to accomplish a desired accounting result and did not entail sufficient qualifying risk transfer. As a result, AIG has determined that the transaction should not have been recorded as insurance. AIG s restated financial statements recharacterize the transaction as a deposit rather than as insurance. This adjustment also includes the effects of a related commutation in 2001. Such recharacterization had virtually no effect on net income or consolidated shareholders equity but had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	$ 245	$	$	$ (258)	$ (250)
Incurred policy losses and benefits	250			(258)	(250)
Consolidated Balance Sheet:					
Reserve for losses and loss expenses	(250)	(500)	(500)	(500)	(250)
Other liabilities	250	500	500	500	250

Other Risk Transfer: AIG has concluded that Richmond Insurance Company, Ltd., a Bermuda-based reinsurance holding company (Richmond) in which AIG held a 19.9 percent ownership interest through December 31, 2004, should be treated as a consolidated entity in AIG s financial statements due to AIG s ability to exert control over that entity. Such determination was based, in part, on arrangements and documents, including put agreements requiring an AIG subsidiary to purchase the Richmond shares, that appear not to have been previously disclosed to appropriate AIG financial personnel or AIG s independent auditors. Although as of December 31, 2004 AIG owned only a

minority ownership interest in Richmond, a review of the operations of Richmond and its subsidiaries has shown significant previously undisclosed evidence of AIG control causing Richmond to be deemed a VIE. The consolidation of Richmond had virtually no effect on net income or consolidated shareholders equity. On June 30, 2005, AIG acquired an additional 49.9 percent of Richmond and in October 2005 AIG acquired the remaining 30.2 percent of Richmond.

As a result of its internal review of AIG Re, AIG Risk Finance and AIG Risk Management and certain transactions, AIG determined that adjustments were required because certain transactions lacked sufficient risk transfer to qualify for insurance accounting under GAAP.

The effect of the First Restatement for Richmond, AIG Re, AIG Risk Finance, AIG Risk Management and certain other

transactions on certain of AIG s consolidated statement of income and balance sheet accounts is as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	$ (287)	$ 33	$ (856)	$ (924)	$ (815)
Incurred policy losses and benefits	(159)	53	(862)	(561)	(739)
Insurance acquisition and other operating expenses	(112)	(62)	(35)	(242)	(65)
Net income	(26)		22	(66)	(4)
Consolidated Balance Sheet:					
Premiums and insurance balances receivable, net of allowance	(362)	(389)	(537)	(752)	(932)
Reinsurance assets	(529)	(1,185)	(912)	(937)	(1,032)
Other assets	947	1,126	634	807	989
Reserve for losses and loss expenses	(1,154)	(1,609)	(1,609)	(995)	(748)
Reserve for unearned premiums	82	112	(31)	(131)	(347)
Funds held by companies under reinsurance treaties	(740)	(1,019)	(1,021)	(1,103)	(1,040)
Other liabilities	1,910	2,114	1,850	1,392	1,120
Total shareholders equity	(77)	(51)	(52)	(73)	(7)

Loss Reserves: Estimation of ultimate net losses and loss expenses is a complex process requiring the use of assumptions which may be highly uncertain at the time of estimation. As a result of its internal review, AIG has determined that the IBNR included in the General Insurance reserve for losses and loss expenses was adjusted on a regular basis without appropriate support for the changes requested to be made. Although AIG does not believe that any change materially affected the integrity of AIG s loss reserve position because in each instance IBNR as adjusted was determined to be within an appropriate tolerance of the applicable actuarial point estimate, AIG has determined that the unsupported decreases in reserves generated independently from the actuarial process constituted errors which should be corrected and has restated the amounts of carried reserves accordingly. As a result, the fourth quarter 2002 charge relating to the increase in the General Insurance reserve for losses and loss expenses, previously reported as $2.8 billion, has been restated to $2.1 billion to reduce the original charge by the cumulative effect of the correction of the unsupported adjustments to reserves through that date (approximately $700 million). Therefore, the charge to pretax earnings is approximately $700 million less than previously reported, reflecting the removal of the unsupported adjustments to reserves in periods prior to and including the fourth quarter of 2002. The effect of the First Restatement of the loss reserves on certain of AIG s consolidated statement of income and balance sheet accounts is set forth as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Incurred policy losses and benefits	$ 302	$ 342	$ (351)	$ 137	$ 223
Net income	(196)	(222)	228	(89)	(145)
Consolidated Balance Sheet:					
Reserve for losses and loss expenses	880	578	236	587	450
Total shareholders equity	(572)	(375)	(153)	(381)	(292)

Net Investment Income. As a result of the internal review, AIG determined that the accounting for certain transactions had the effect of improperly converting capital gains into net investment income and was not consistent with GAAP. The most significant of these transactions are:

Covered Calls: From 2001 through 2003, certain AIG subsidiaries entered into a series of transactions with third parties whereby these subsidiaries sold in-the-money calls, principally on municipal bonds in their investment portfolios that had unrealized appreciation associated with them. Upon exercise of a call, the related bonds were delivered to the purchaser of the call and subsequently reacquired by the subsidiaries pursuant to contingent forward agreements which permitted the AIG subsidiaries to repurchase the bonds at the prevailing market value. In connection with selling the calls, the AIG subsidiaries also entered into interest rate swaps to protect them against the effects of changes in value of the applicable bonds as a result of movements in interest rates during the transaction period. These transactions were accounted for as sales and subsequent purchases and appear to have been initiated to increase net investment income. AIG has determined that, because AIG was able to cause the bonds to be returned from the third parties even after the third parties exercised the call options, AIG did not cede control over the bonds and therefore the transactions

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

should not have been accounted for as sales and subsequent purchases but rather as financings. The adjustments required to correct this error reduce previously reported amounts of net investment income and correspondingly increase realized capital gains from these transactions over the three-year period. The First Restatement had no net effect on consolidated shareholders equity for any period and the following effects on certain of AIG s consolidated statement of income accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net investment income	$ 35	$ (179)	$ (7)	$ (146)	$
Realized capital gains (losses)	57	118	61	55	
Net income	59	(40)	35	(59)	

Synthetic Fuel Investment: AIG subsidiaries invest in certain limited liability companies that invest in synthetic fuel production facilities as a means of generating income tax credits. As a result of a misapplication of GAAP, AIG recorded net investment income or, in some cases, other revenues, on a pretax basis rather than reflecting the tax credit as a reduction of income tax expense, thereby increasing net investment income for AIG s life insurance and retirement services segment and other revenues for the financial services segment. Certain of these entries were previously identified but not corrected as the amounts were viewed as not sufficiently material to require correction. In the fourth quarter of 2004, AIG changed its accounting to present these tax credits as a component of income taxes. AIG has now determined that it is necessary to record these adjustments for the periods prior to the fourth quarter of 2004. These adjustments had no effect on consolidated net income or shareholders equity but had the following effects on certain of AIG s consolidated statement of income accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net investment income	$ (203)	$ (238)	$ (259)	$ (31)	$
Other revenues	(143)	(200)	(165)	(212)	(79)
Income taxes	(346)	(438)	(424)	(243)	(79)

Hedge Fund Accounting: AIG subsidiaries invest in a variety of alternative asset classes, including hedge fund limited partnerships, that are accounted for as available for sale securities. As part of the underlying partnership agreements, such AIG subsidiaries have the right to redeem their interests at defined times. A redemption allows AIG to record net investment income to the extent there are gains in the underlying funds at the time. However, as a result of its internal review, AIG has determined that, in certain cases, the redemption resulted in inappropriate gain recognition because the proceeds were required to be immediately reinvested in the funds. In addition, the cost bases of certain funds were misallocated in determining gains. The restated consolidated financial statements correct these errors. These corrections had virtually no effect on consolidated shareholders equity but had the following effects on certain of AIG s consolidated statement of income accounts.

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net investment income	$ 11	$ 29	$ 159	$ (177)	$ (101)
Other revenues	(9)		26	(27)	(87)
Net income	2	19	120	(133)	(122)

Muni Tender Option Bond Program: From 2000 through early 2003, AIG subsidiaries participated in a program in which they transferred highly rated municipal bonds at market value to a third-party broker, which in turn transferred these securities to a trust that the broker had established. The trust then issued two sets of beneficial interests. Half of the beneficial interests were floating interest rate certificates. The remaining beneficial interests were inverse floating interest rate certificates. Third parties invested in the floating interest rate certificates, and AIG subsidiaries invested in the inverse floating interest rate certificates. AIG did not consolidate the trust into AIG s balance sheet.

The AIG subsidiaries, as the holders of the residual interest inverse floating rate certificates, had the right to unilaterally liquidate the trust and cause the municipal bonds to be returned to AIG on short notice. Accordingly, the AIG subsidiaries did not cede control over the bonds. As a result, AIG now believes that the conclusion not to consolidate was an error in the application of GAAP. Therefore, AIG has now consolidated the trusts into its balance sheets at December 31, 2002, 2001 and 2000. The consolidations had no effect on consolidated shareholders equity but had

the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net investment income	$ 65	$ 60	$ 44	$ 11	$
Realized capital gains (losses)	27	(148)	(47)	(194)	22
Net income	60	(57)	(2)	(119)	14
Consolidated Balance Sheet:					
Other assets			2,075	2,199	1,449
Other liabilities			2,075	2,199	1,449

DBG/AIG Capital Corporation Intercompany Dividend: In 2002, AIG Capital Corporation issued shares of its preferred stock to National Union in exchange for shares of ILFC s common stock. AIG did not eliminate the preferred stock investment in consolidation, instead recording the dividend as income in net investment income and as corresponding expense in other operating expenses. AIG has now determined that this accounting is a misapplication of GAAP. Accordingly, AIG has eliminated this intercompany investment and reversed the accounting entries in its consolidated statement of income. The First Restatement had no effect on consolidated net income or shareholders equity but had the following effects on certain of AIG s consolidated statement of income accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net investment income	$ (100)	$ (100)	$	$	$
Insurance acquisition and other operating expenses	(100)	(100)			

Top Level Adjustments and Other Directed Entries (other than loss reserves). Certain accounting entries originated at the parent company level had the effect of reclassifying realized capital gains to net investment income, as well as adjusting other line item reclassifications and other segment financial information. In some cases, expense deferrals were increased or reserves decreased, both having the effect of increasing reported earnings. In other
cases, the adjustments affected revenue and expense recognition between reporting periods or among business segments. Certain of these entries were previously identified but considered not to be sufficiently material to require correction. As part of its internal review, AIG analyzed and assessed top level adjustments since 2000 and determined that certain entries appear to have been made at the direction of certain former members of senior management without appropriate documentation or support.

Foreign Life Insurance Net Investment Income Reclassification: In addition to the matters described above, certain accounting entries, now determined to be errors, had the effect of reclassifying capital gains realized from investments made to match liabilities relating to policies in Japan and Southeast Asia. Due to the limited availability of long-duration bonds or bonds with sufficient yield to meet the policyholder liability requirements in Japan and Southeast Asia, AIG subsidiaries made alternative investments, including investments in equities. Until the fourth quarter of 2003, a portion of the capital gains realized on these alternative investments, including substantial amounts related to the sale of fixed income securities, was reclassified to net investment income in the consolidated statement of income to match these revenues against the incurred policy benefit expense of the underlying policies. Amounts so reflected, which were previously identified but not corrected as they were viewed as immaterial, are treated as corrections of errors in the restated financial statements, and are as follows: $57 million, $448 million, $278 million, $129 million, and $87 million for 2004, 2003, 2002, 2001 and 2000, respectively.
Beginning in the first quarter of 2004, a process was implemented to identify only certain equity-related gains in Southeast Asia and a limited amount of fixed income and equity gains in Japan and to segregate and treat such realized capital gains separately for segment reporting

purposes only. The new process and limits were applied retroactively for 2003, 2002, 2001 and 2000 as part of the First Restatement.

The First Restatement reverses all such unsupported top level and other directed entries, including the Foreign Life Insurance Net Investment Income Reclassification, with the

following effect on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	$ 130	$ 250	$ (199)	$ (272)	$ (184)
Net investment income	(384)	(783)	(733)	(514)	(155)
Realized capital gains (losses)	108	559	374	223	126
Other revenues	267	89	92	70	80
Incurred policy losses and benefits	57	195	(337)	(417)	(97)
Insurance acquisition and other operating expenses	(229)	(115)	47	272	95
Net income	213	26	(112)	(241)	(112)
Consolidated Balance Sheet:					
Premiums and insurance balances receivable, net of allowance	(15)	(265)	(456)	(398)	(306)
Reserve for losses and loss expenses		(30)	(306)	(246)	(95)
Other liabilities	252	231	251	155	(10)
Total shareholders equity	(206)	(401)	(454)	(342)	(105)

Conversion of Underwriting Losses to Capital Losses. This category includes transactions and entries that had the principal effect of improperly recharacterizing underwriting losses as capital losses. Although these errors have a minimal effect on consolidated shareholders equity at December 31, 2004, they have an effect on underwriting results in each year. This category also includes insurance and reinsurance transactions where AIG s accounting resulted in errors relating to the timing and classification of income recognition as well as errors relating to the timing of premium recognition. The most significant transactions in this category are the following:

Capco: AIG has determined that a series of transactions with Capco Reinsurance Company, Ltd. (Capco), a Barbados-domiciled reinsurer, involved an improper structure created to recharacterize underwriting losses relating to auto warranty business as capital losses. That structure, which appears to have not been properly disclosed to appropriate AIG personnel or its independent auditors, consisted primarily of arrangements between subsidiaries of AIG and Capco that require Capco to be treated as a consolidated entity in AIG s financial statements. The result of such consolidation is to reverse capital losses for the years 2000 through 2003 and recognize a corresponding amount of underwriting losses in 2000.

The Robert Plan: AIG has restated the accounting for surplus notes purchased as part of a litigation settlement in 2002 with The Robert Plan Corporation (The Robert Plan). Pursuant to the settlement agreement, the surplus notes were to be repaid through profits received from a managing general agency relationship with The Robert Plan. When AIG deemed that repayment under the surplus notes was unlikely, AIG recorded the impairment charge as realized capital losses rather than underwriting losses. AIG now believes that this accounting treatment was an error and has restated the impairment charges as underwriting losses.

AIRCO Reinsurance: In each of 1999 and 2000, AIRCO entered into stop loss reinsurance agreements with Union Excess relating to accident and health business of Nan Shan. Concurrently with each reinsurance agreement, AIRCO entered into a swap agreement with Union Excess, under which the payments were linked to payments under the reinsurance agreement. The transaction had the effect of converting incurred policy losses into capital losses. AIG has determined that its prior accounting was a misapplication of GAAP and has reversed both the cessions under the reinsurance agreement and the corresponding swaps.

The effect of the First Restatement on certain of AIG s consolidated statement of income and balance sheet accounts is as follows:

Increase (Decrease) For Years Ended and at December 31,

(in millions)	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	$	$	$ (43)	$	$ 1
Realized capital gains (losses)	116	19	48	66	58
Incurred policy losses and benefits			130		192
Insurance acquisition and other operating expenses	(6)	(2)	1		
Net income	79	20	(65)	66	(133)
Consolidated Balance Sheet:					
Collateral and guaranteed loans, net of allowance	(116)	(55)			
Short-term investments, at cost			(100)	(120)	(120)
Other assets	(5)	(7)	(22)	(67)	(133)
Total shareholders equity	(30)	(109)	(129)	(64)	(130)

Asset Realization. As a result of the internal review, AIG concluded that adjustments should be made to the value of

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certain assets included in its consolidated balance sheet. The most significant of these items are:

Domestic Brokerage Group (DBG) Issues: A review of allowances for doubtful accounts and other accruals recorded by certain DBG member companies has led AIG to conclude that the allowances related to certain premiums receivable, reinsurance recoverables and other assets were not properly analyzed in prior periods and that appropriate allowances were not properly recorded in AIG s consolidated financial statements. Certain relevant information was known by certain members of senior management but, AIG now understands, not previously disclosed to the independent auditors. In addition, various accounts were not properly reconciled. AIG s restated financial statements reflect the recording of appropriate amounts for these reserves and allowances for doubtful accounts for the appropriate time period, resulting in an after-tax reduction in consolidated shareholders equity at December 31, 1999 of $514 million. Because all of the reporting periods affected by these adjustments were prior to 2000, the First Restatement results in decreases in insurance acquisition and other operating expenses in 2004, 2003, 2002, 2001 and 2000. The effect of the First Restatement resulting from DBG issues on certain of AIG s consolidated statement of income and balance sheet accounts is as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Insurance acquisition and other operating expenses	$ (52)	$ (224)	$ (23)	$ (22)	$ (27)
Net income	34	146	15	13	17
Consolidated Balance Sheet:					
Premiums and insurance balances receivable, net of allowance	(864)	(918)	(1,142)	(1,166)	(1,249)
Reserve for losses and loss expenses	(509)	(509)	(509)	(509)	(509)
Reserve for unearned premiums	(81)	(81)	(81)	(81)	(107)
Total shareholders equity	(290)	(324)	(470)	(484)	(497)

Other Than Temporary Declines: AIG s investment accounting policies require that an investment that has been identified as impaired should be written down in the period in which such impairment is determined, and recorded as a realized capital loss. AIG has determined that realized capital losses with respect to certain impaired investments were not recorded in the appropriate periods, and the restatement will thus affect the timing of previously reported realized capital losses. The First Restatement adjustments resulting from other than temporary declines had only a minor effect on consolidated shareholders equity but affected certain of AIG s consolidated statement of income accounts as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Realized capital gains (losses)	$ 4	$ 463	$ 307	$ (209)	$ (202)
Net income	2	301	200	(136)	(132)

Other GAAP Corrections. As part of its internal review, AIG has considered the application of certain accounting principles to specific businesses and transactions, and has determined that certain misapplications of GAAP are errors that require restatement of its financial statements. These adjustments include the following:

Accounting for Derivatives (FAS 133 Hedge Accounting): AIG and its subsidiaries, including AIGFP, engage in hedging activities for their own accounts, which AIG believes have been and remain economically effective. AIG and its subsidiaries enter into derivative contracts principally to hedge interest rate risk and foreign currency risk associated with their assets, liabilities and forecasted cash flows. Such derivative transactions include interest rate swaps, cross currency swaps and forwards, which are generally executed through AIGFP. Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities (FAS 133) requires that third-party derivatives used for hedging must be specifically matched with the underlying exposures to an outside third party and documented

contemporaneously to qualify for hedge accounting treatment. The internal review determined that in many cases AIG did not meet these hedging requirements with respect to certain hedging transactions. See the discussion under Derivatives herein.

AIG has historically reported the changes in the fair value of certain derivatives used for hedging activities through other comprehensive income in consolidated shareholders equity or in net income with a corresponding adjustment to the hedged item, depending on the nature of the hedging relationship. In order to comply with FAS 133, the restated consolidated financial statements include the changes in fair value for certain derivatives, previously recorded through other comprehensive income, in current period income and reverse the previous adjustments on certain assets and liabilities recorded in income in connection with hedge accounting. Because these activities did not qualify for hedge accounting, Statement of Financial Accounting Standards

No. 115 Accounting for Certain Investments in Debt and Equity Securities requires AIG to recognize the corresponding changes in fair value, including foreign exchange gains and losses resulting from exchange rate fluctuations, relating to available-for-sale investments through accumulated other comprehensive income. The First Restatement adjustments with respect to FAS 133 do not result in any changes in AIG s liquidity or its overall financial condition even though inter-period volatility of earnings increases.

AIG is assessing the cost and benefits of modifying its hedging activities to obtain hedge accounting under the requirements of FAS 133. The First Restatement to reflect appropriate GAAP accounting for these derivatives, which also included reclassifications between the accounts securities available for sale, at market value and securities purchased under agreements to resell, at contract value, had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Realized capital gains (losses)	$ (109)	$ 104	$ (14)	$ (36)	$
Other revenues	524	(1,357)	(503)	(370)	1,265
Net income	252	(783)	(323)	(252)	822
Consolidated Balance Sheet:					
Financial services assets:					
Securities available for sale, at market value	8,021	8,328	9,263	6,264	(156)
Securities purchased under agreements to resell, at contract value	(7,325)	(7,325)	(7,825)	(6,325)	
Financial services liabilities:					
Securities sold under agreements to repurchase, at contract value	2,061	1,003	197	(340)	(216)
Unrealized loss on swaps, options and forward transactions	(2,199)	(610)	394	1,566	333
Retained earnings	(394)	(646)	136	459	711
Accumulated other comprehensive income	1,412	1,439	1,424	121	(134)
Total shareholders equity	1,018	792	1,561	581	577

Accounting for Deferred Taxes: AIG identified certain misapplications of GAAP in its provision for deferred income taxes as follows:
For certain foreign subsidiaries for which AIG has plans to permanently reinvest undistributed earnings, AIG incorrectly provided U.S. deferred taxes on the unrealized appreciation associated with investment securities in accumulated other comprehensive income.

For certain foreign subsidiaries for which AIG does not have plans for permanent reinvestment of undistributed earnings, U.S. deferred taxes were incorrectly omitted on certain components of other comprehensive income.

The First Restatement had the following effects on consolidated net income and shareholders equity:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net income	$ (5)	$ (23)	$ (22)	$	$

Consolidated Balance Sheet:					
Total shareholders equity	889	761	490	324	166

Foreign Currency Translation (FAS 52): FAS 52 is used to determine the timing of the recognition of income or expense resulting from foreign exchange rate changes for transactions denominated in other than a functional currency.
AIG has determined that, in certain cases, its application of FAS 52 in its consolidated financial statements did not comply with the functional currency determination requirements of the standard. As a result, AIG has recorded accounting adjustments to reclassify currency transaction gains and losses from accumulated other comprehensive income to net income. These corrections affected consolidated net income in certain periods but had no effect on consolidated shareholders equity at December 31, 2004 or for prior periods.

AIG adopted a practice in the 1990s of recording adjustments to general insurance reserves to offset increases or decreases in such reserves through other comprehensive income, net of tax, resulting from translation of reserves denominated in foreign currencies. AIG now believes that this accounting practice was a misapplication of GAAP. As a result of this adjustment, general insurance reserves denominated in foreign currencies have been restated to restore the translation effect to reserve for losses and loss expenses.

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Together, these adjustments had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Realized capital gains (losses)	$ (127)	$ (193)	$ (52)	$ 44	$
Net income	(124)	(193)	(53)	75	119
Consolidated Balance Sheet:					
Other assets	163	143	31	(6)	(15)
Reserve for losses and loss expenses	(25)	(407)	(882)	(902)	(747)
Total shareholders equity	131	358	594	583	476

Life Settlements. Life settlements are designed to assist life insurance policyholders to monetize the existing value of life insurance policies. AIG, through an insurance subsidiary and non-consolidated trusts, which are deemed to be a qualifying special purpose entity and a VIE, engages in this business. The non-consolidated trusts purchase life insurance policies from policyholders at an initial price and pay additional premiums to keep the policies in force until the insured dies. AIG s proportionate share of the net death benefits from the purchased contracts, net of reinsurance to a third party reinsurer, was recorded as premium. The costs incurred by the trusts to acquire the contracts and keep them in force were recorded as paid losses by AIG, net of reinsurance. AIG s accounting resulted in upfront gain recognition of expected profits and premium recognition for amounts loaned to the trusts by other AIG subsidiaries.

AIG has determined, in light of new information which was not available to management or AIG s independent auditors at the time the initial accounting determination was made, that the accounting for these transactions as insurance and reinsurance is a misapplication of GAAP that should be corrected through restatement. The First Restatement results in life settlements being accounted for using an investment method of accounting under FASB Technical Bulletin (FTB) 85-4 Accounting for Purchases of Life Insurance. Under FTB 85-4, the carrying value of each contract at purchase and at the end of each reporting period is equal to the cash surrender value of the contract. Cash paid to purchase these contracts that is in excess of the cash surrender value at the date of purchase is recognized as a loss immediately, and periodic maintenance costs, such as premiums necessary to keep the underlying contract in force, are charged to earnings immediately. The life insurance benefits at the insured s death are payable to the AIG subsidiary and reflected in income at that time. The effect of the First Restatement on certain of AIG s consolidated statement of income and balance sheet accounts is as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	$ (915)	$ (809)	$ (603)	$ (147)	$
Net investment income	(134)	(143)	(114)	(20)	
Incurred policy losses and benefits	(850)	(743)	(552)	(134)	
Net income	(129)	(136)	(107)	(22)	
Consolidated Balance Sheet:					
Other invested assets	(486)	(253)	(142)	(28)	
Premiums and insurance balances receivable, net of allowance	(3,075)	(1,842)	(774)		
Other assets	341	219	111	29	
Reserve for losses and loss adjustment expenses	(1,734)	(1,026)	(527)	(134)	
Funds held by companies under reinsurance treaties	(1,242)	(601)	(193)		
Total shareholders equity	(396)	(270)	(129)	(22)	

Recently, the FASB tentatively concluded that life settlement contracts could be accounted for as an investment, held at cost, with no loss recognized at inception, and revenue recognized when the death benefit is received. Alternatively, an entity could make an irrevocable item-by-item election to measure investments in life settlement contracts at fair value. The fair value election can be made for existing contracts at the date of adoption or for new contracts made upon entering into the life settlement contract. In its discussions, the FASB tentatively concluded that retroactive application will be required. AIG expects that approximately $250 million of the First Restatement adjustment to shareholders equity at December 31, 2004 would be eliminated, under either the fair value or investment method, if the FASB s tentative conclusion is adopted.

Deferred Acquisition Costs (DAC): The internal review identified a misapplication of GAAP with respect to General Insurance DAC. As a result of top level entries, substantially all costs associated with underwriting and marketing operations were deferred. The internal review determined that certain of these costs did not vary sufficiently with the production of business and should not have been deferred. These costs have been allocated to the periods in which they were incurred and the corresponding DAC asset has been adjusted accordingly. In addition, AIG determined that the amortization period for certain DAC was longer than the typical life of the underlying policies and needed to be

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shortened, and that certain deferrals associated with an inter-company reinsurance treaty were in error and required correction. This adjustment includes the recharacterization of certain incurred policy losses and benefits to Insurance acquisition and other operating expenses. The effect of these adjustments on certain of AIG s consolidated statement of income and balance sheet accounts is as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Incurred policy losses and benefits	$ (265)	$ (231)	$ (188)	$ (133)	$ (134)
Insurance acquisition and other operating expenses	321	287	285	450	310
Net income	(33)	2	(12)	(138)	(40)
Consolidated Balance Sheet:					
Deferred policy acquisition costs	(485)	(432)	(383)	(307)	(85)
Other assets	(92)	(94)	(146)	(204)	(214)
Total shareholders equity	(344)	(311)	(313)	(301)	(163)

SICO Deferred Compensation: AIG has included in the First Restatement, expense amounts attributable to deferred compensation granted to certain AIG employees by SICO (pursuant to the SICO Plan described in Note 16), a private holding company that owns approximately 12 percent of AIG s common stock. The amount of deferred compensation granted by SICO has previously been disclosed in the notes to AIG s consolidated financial statements but was not included as an expense in the calculation of AIG s consolidated net income because the amounts had been determined not to be material to AIG s consolidated results of operations in any individual period. The expense related to SICO deferred compensation is recorded as a charge to reported earnings in the periods restated, with an offsetting entry to additional paid-in capital reflecting amounts deemed contributed by SICO. For prior periods, AIG has recorded a reduction of $905 million in retained earnings on its December 31, 1999 consolidated balance sheet and a corresponding increase to additional paid-in capital. The volatility in the expense is attributable to the variable accounting as well as the fact that shares are allocated only in alternate years. The inclusion of the expense attributable to the SICO Plans in AIG s consolidated financial statements had no effect on consolidated shareholders equity but had the following effects on certain of AIG s consolidated statement of income accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Insurance acquisition and other operating expenses	$ 56	$ 275	$ (173)	$ 45	$ 293
Net income	(56)	(275)	173	(45)	(293)

Commutations: Certain direct insurance, and ceded and assumed reinsurance contracts, were commuted prior to their natural expiration. For certain commutations, the cash received was recorded through negative paid losses in accordance with statutory guidance, while for others it was recorded as written premiums. Despite the lack of guidance under GAAP with respect to this issue, AIG has determined that the accounting for certain commutations was in error due to the inconsistency in AIG s accounting for commutations and the fact that certain commutations were recorded through the written premium line when there was no unearned premium balance outstanding. As part of this restatement any commutations that were originally recorded through written premium are reclassified to paid losses in the period in which they occurred. The First Restatement had no effect on consolidated net income or shareholders equity but affected certain of AIG s consolidated statement of income and balance sheet accounts as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					

Premiums and other considerations	$ (370)	$ (405)	$ (79)	$ 4	$ (312)
Incurred policy losses and benefits	(370)	(405)	(79)	4	(312)
Consolidated Balance Sheet:					
Reserves for losses and loss expenses	151	58	51	51	
Insurance balances payable	(93)	(51)	(51)	(51)	

Dollar Roll Transactions: Certain AIG subsidiaries entered into dollar roll transactions with third parties designed to enhance the return on AIG s mortgage backed securities (MBS) portfolio. In a dollar roll transaction, AIG subsidiaries agree to sell a pool of MBSs and simultaneously agree to repurchase substantially the same securities at a later date, typically in one month. AIG accounted for these transactions as collateralized financings under SFAS 140. Even though it had received collateral sufficient to fund substantially all of the cost of purchasing identical replacement securities at the time of transfer, AIG was not fully protected during the term of the contract to replace the asset in

the event that the transferee defaulted. Accordingly, AIG should not have accounted for these transactions as financings, but rather as derivatives with mark-to-market changes reflected in earnings. The effect of the adjustments and restatement on certain of AIG s consolidated statement of income accounts is as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Realized capital gains (losses)	$ 16	$ (98)	$ 157	$ (46)	$ 26
Net income	16	(98)	157	(46)	26

Affordable Housing: Through an investment limited partnership, an AIG subsidiary, as the general partner, syndicates the tax benefits (including both tax credits and tax losses) generated by affordable housing real estate properties. AIG guarantees the return of the tax benefits to the limited partner investors. Prior to the second quarter of 2003, these syndication transactions were accounted for as sales and the gain was recorded on a straight-line basis over ten years. Beginning in the third quarter of 2003, because of the guarantees, AIG changed its accounting for these partnerships to record all new syndications as financings, rather than sales. At the same time, AIG adjusted its consolidated balance sheet to reflect previous syndications as financings, but did not record the cumulative impact to earnings because the amounts were viewed as immaterial. AIG has now determined that it is necessary to record these adjustments for the periods prior to the third quarter of 2003, and the First Restatement had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Other revenues	$ (39)	$ (44)	$ (43)	$ (71)	$ (126)
Net income	(25)	(28)	(28)	(46)	(82)
Consolidated Balance Sheet:					
Other invested assets	1,452	1,652	1,585	1,427	1,172
Investment income due and accrued	(289)	(254)	(222)	(149)	(109)
Other assets	(1,688)	(2,009)	(7)	(5)	(2)
Other liabilities	(30)	(154)	1,770	1,644	1,360
Total shareholders equity	(322)	(297)	(269)	(241)	(195)

SunAmerica Partnerships: As part of the First Restatement, management has reclassified the earnings of the SunAmerica partnerships out of other operations, where previously reported, into the Asset Management segment. This revised presentation characterizes the partnership earnings as revenues rather than as a component of insurance acquisition and operating expenses in AIG s consolidated statement of income. Within the Asset Management segment, this presentation divides the partnership earnings into those of SunAmerica Life, whose equity supports the GIC business, and those of AIG SunAmerica, which are now classified as other asset management revenues. The First Restatement had no effect on consolidated net income or shareholders equity but affected certain of AIG s consolidated statement of income accounts as follows:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000

Consolidated Statement of Income:					
Other revenues	$ 661	$ 323	$ 243	$ 475	$ 764
Insurance acquisition and other operating expenses	661	353	247	475	764

(b) Second Restatement

As announced on November 9, 2005, AIG identified certain errors, the preponderance of which were identified during the remediation of the material weaknesses in internal controls over financial reporting referred to above, principally relating to internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133, reconciliation of certain balance sheet accounts and income tax accounting. AIG also announced it was correcting errors that were identified since the First Restatement, including those relating to the accounting for certain payments received from aircraft and engine manufacturers by ILFC, which were originally corrected in AIG s June 2005 Form 10-Q. The adjustments to correct the foregoing errors are referred to as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal controls over financial reporting referred to above, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in DBG. As a result, AIG is including further adjustments (the Additional Adjustments) in its restatement of the consolidated financial statements and financial statement schedules for the years ended December 31, 2004, 2003 and 2002, along with 2001 and 2000 for purposes of preparation of the Selected Consolidated Financial Data for 2001 and 2000, and quarterly financial information for 2004 and 2003 and will restate the first three quarters of 2005. The Initial Adjustments and the Additional Adjustments are referred to herein as the Second Restatement. AIG s September 2005 Form 10-Q will not be amended because the

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Additional Adjustments to the financial statements included therein are not material to those financial statements.

Details of Initial Adjustments in the Second Restatement. The accounting adjustments relate primarily to the categories described below.

Accounting for Derivatives and Related Assets and Liabilities (FAS 133 Hedge Accounting). During the third quarter of 2005, AIG identified and corrected additional errors identified during the remediation of the previously disclosed material weakness in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133. AIG continues to believe such hedging activities have been and remain economically effective, but do not currently qualify for hedge accounting.

Included in the Initial Adjustments to correct AIG s accounting for derivatives are adjustments correcting the errors in accounting for certain secured financings where AIGFP had sold an available-for-sale security and concurrently entered into a total return swap with a repurchase obligation. The Initial Adjustments for these errors increased both securities available for sale, at market value, and securities sold under agreements to repurchase, by approximately $2 billion as of December 31, 2004.

The Initial Adjustments to reflect appropriate GAAP accounting for these derivatives, which also included related currency translation gains and losses, had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Realized capital gains (losses)	$ 42	$ 170	$ (386)	$ 9	$ 11
Other revenues	(242)	(167)	276	138	
Insurance acquisition and other operating expenses	(321)	(236)	(139)	(26)	(2)
Net income	133	138	21	54	62
Consolidated Balance Sheet:					
Securities available for sale, at market value	2,320	2,028	989		
Securities sold under agreements to repurchase, at market value	2,317	2,080	992		

Asset Realization Domestic Brokerage Group (DBG) Issues. During the third quarter of 2005, AIG concluded that additional adjustments should be made to the value of certain DBG reserves and allowances for doubtful accounts for time periods prior to January 1, 2003. See also (a) First Restatement Details of Accounting Adjustments included in the First Restatement Asset Realization Domestic Brokerage Group (DBG) Issues.

The Initial Adjustments had the following effects on consolidated net income and shareholders equity:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net income	$	$	$ (18)	$ (36)	$ (36)
Consolidated Balance Sheet:					
Total shareholders equity	(205)	(205)	(205)	(187)	(151)

Income Tax Accounting. During the third quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The most significant adjustment resulted from AIG incorrectly recording the income tax benefit resulting from employee exercises of stock

options as a reduction in income tax expense rather than as an increase in additional paid-in capital as required by GAAP. The Initial Adjustments relating to income tax had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Income tax expense	$ (169)	$ 5	$ 9	$ 13	$ 22
Net income	169	(5)	(9)	(13)	(22)
Consolidated Balance Sheet:					
Additional paid-in capital	113	95	90	81	68
Total shareholders equity	131				

Manufacturers Payments Received by ILFC. In the course of the ILFC review of its application of FAS 133 in connection with AIG s internal review, ILFC, in consultation with its independent registered public accounting firm, identified an error in its accounting for certain payments received from aircraft and engine manufacturers. Under arrangements with these manufacturers, in certain circumstances, the manufacturers established notional accounts for the benefit of ILFC to which amounts were credited by the manufacturers in connection with the purchase by and delivery to ILFC and the lease of aircraft. Amounts credited to the notional accounts were used at ILFC s direction to protect ILFC from certain events, including loss when airline customers of ILFC defaulted on lease payment obligations, to provide lease subsidies and other incentives to ILFC s airline customers in connection with leases of certain aircraft, and to reduce ILFC s cost of aircraft purchased.

Historically, ILFC recorded as revenues gross lease receipts from lessees who had received lease subsidies from the notional accounts and amounts paid directly to ILFC from the notional accounts in connection with lessee defaults.

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Amounts recorded as revenue at the time they were disbursed to ILFC or its lessees should have been recorded as a reduction of the purchase price of the aircraft at the time of delivery.

Although ILFC restated its financial statements for the years 2000 through 2004 and for the quarter ended March 31, 2005 to correct its accounting for the payments from aircraft and engine manufacturers described above, AIG had previously considered these adjustments not to be sufficiently material to require correction by restatement in AIG s consolidated financial statements. The Initial Adjustments relating to the manufacturers payment had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Other revenues	$ (115)	$ (145)	$ (147)	$ (89)	$ (71)
Net income	(46)	(67)	(72)	(37)	(29)
Consolidated Balance Sheet:					
Total shareholders equity	(320)	(274)	(207)	(135)	(98)

Details of Additional Adjustments in the Second Restatement. The Additional Adjustments relate primarily to the categories described below.

Asset Realization and Revenue Recognition Domestic Brokerage Group (DBG) Issues During the remediation of material weaknesses in internal controls, AIG concluded that additional adjustments should be made to the value of certain DBG reserves and allowances for doubtful accounts, and revisions were necessary to the revenues previously recognized for certain long-tail environmental policies. See also (a) First Restatement Details of Accounting Adjustments included in the First Restatement Asset Realization Domestic Brokerage Group (DBG) Issues.

The Additional Adjustments had the following effects on consolidated net income and shareholders equity:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Net income	$ (33)	$ (31)	$ (55)	$ (42)	$ (21)
Consolidated Balance Sheet:					
Total shareholders equity	(534)	(478)	(417)	(397)	(356)

Accounting for Derivatives and Related Assets and Liabilities (FAS 133 Hedge Accounting). During the fourth quarter of 2005, AIG identified and corrected additional errors identified during the remediation of the previously disclosed material weaknesses in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133. AIG continues to believe such hedging activities have been and remain economically effective, but do not currently qualify for hedge accounting.

The Additional Adjustments to reflect appropriate GAAP accounting for these derivatives, which also included related currency translation gains and losses, had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31,

(in millions)	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Other revenues	(121)	142	57	11	(100)
Net income	(87)	154	81	2	(89)
Consolidated Balance Sheet:					
Total shareholders equity	(65)	(49)	(68)	(39)	(65)

Income Tax Accounting. During the fourth quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The income tax adjustments had the following effects on certain of AIG s consolidated statement of income and balance sheet accounts:

Increase (Decrease) For Years Ended and at December 31, *(in millions)*	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Income tax expense	59	48	35	16	(34)
Net income	(59)	(48)	(35)	(16)	34
Consolidated Balance Sheet:					
Total shareholders equity	(98)	(23)	101	98	33

Fourth Quarter 2004 Changes in Estimates

Adjustments in the First Restatement affecting the 2004 consolidated statement of income include changes in estimates relating to the reserve for losses and loss expenses, certain expenses and certain allowances. See Critical Accounting Estimates herein. Losses and loss expenses incurred for the fourth quarter includes $850 million relating to changes in estimates attributable to asbestos and environmental exposures, see Asbestos and Environmental Reserve herein, $232 million relating to changes in estimates attributable to the accruals for salvage and subrogation recoveries (see Note 1(cc) of Notes to Consolidated Financial Statements) and $178 million attributable to an arbitration decision with Superior National Insurance Company over the rescission of a quota share reinsurance agreement, which increases the reserves for the matter to $370 million at December 31, 2004. See Note 12(h) of Notes to Consolidated Financial Statements. The changes in estimates also includes an adjustment of $56 million to deferred acquisition costs, principally relating to a refinement of costs eligible for deferral in accordance with AIG policy. The change in estimate for DBG asset realization includes an increase in the allowance for uncollectible receivables. With respect to income taxes, the change in estimate relates primarily from the determination that the earnings of certain foreign subsidiaries are expected to be repatriated to the U.S. Accordingly, AIG can no longer assert that the undistributed earnings are permanently reinvested.

See Note 1(cc) of Notes to Consolidated Financial Statements for further details on fourth quarter changes in estimates.

The following table summarizes the more significant of the fourth quarter changes in estimates:

(in millions)	For the Three Months and Twelve Months Ended December 31, 2004
Fourth Quarter 2004 Changes in Estimates:	
Increase in reserve for asbestos and environmental losses and loss expenses	$ (850)
Deferred acquisition costs adjustments	(56)
Accrual for salvage and subrogation recoveries	(232)
Subsequent events related to reinsurance arbitration	(178)
DBG asset realization	(150)
Other changes in estimates	(136)
Total pretax changes in estimates	(1,602)
Income tax adjustments	(146)
Less: tax effect related to changes in estimates	561
Total changes in estimates	$ (1,187)

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

The following tables summarize the effect on major balance sheet and statement of income accounts of the adjustments included in the Restatements and the fourth quarter 2004 changes in estimates by transaction, accounting entry or entity category.

CONSOLIDATED BALANCE SHEET ACCOUNTS

Total Assets

December 31, *(in millions)*	2004	2003	2002	2001	2000
Total Assets, as Previously Announced or Reported	$ 804,607	$ 678,346	$ 561,229	$ 493,061	$ 426,671
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	(1,487)	(1,343)	(1,619)	(1,865)	(2,317)
Other Risk Transfer	47	(456)	(822)	(888)	(981)
Net Investment Income:					
Muni Tender Option Bond Program			2,075	2,199	1,449
Top Level Adjustments and Other Directed Entries (other than loss reserves)	(108)	(413)	(735)	(626)	(405)
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(837)	(872)	(1,017)	(1,032)	(1,105)
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	2,297	1,985	2,347	742	(206)
Accounting for Deferred Taxes	(848)	(603)	(427)	(580)	(484)
Life Settlements	(3,241)	(1,895)	(817)	(147)	
Deferred Acquisition Costs (DAC)	(546)	(495)	(498)	(480)	(268)
Affordable Housing	(525)	(611)	1,356	1,273	1,061
All Other Net	(699)	510	484	790	436
Total Adjustments in the First Restatement	(5,947)	(4,193)	327	(614)	(2,820)
Total Assets, as Adjusted or Restated in the First Restatement	798,660	674,153	561,556	492,447	423,851
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	2,284	1,868	848	(34)	
Manufacturers Payments Received by ILFC	(508)	(438)	(333)	(218)	(158)
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(310)	(310)	(310)	(282)	(226)
All Other Adjustments Net	(84)	(86)	(103)	(67)	(42)
Total Initial Adjustments in the Second Restatement	1,382	1,034	102	(601)	(426)
Total Assets, as Restated for the Initial Adjustments	800,042	675,187	561,658	491,846	423,425

Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	408	618	209	(366)	(599)
Accounting for Derivatives (FAS 133 Hedge Accounting)	391	(6)	(121)	(628)	144
All Other Adjustments Net	304	(197)	(148)	(238)	(261)
Total Additional Adjustments in the Second Restatement	1,103	415	(60)	(1,232)	(716)
Total Assets, as Restated in the Second Restatement	$ 801,145	$ 675,602	$ 561,598	$ 490,614	$ 422,709

Other Invested Assets

December 31, *(in millions)*	2004	2003	2002	2001	2000
Other Invested Assets, as Previously Announced or Reported	$ 21,316	$ 16,787	$ 12,680	$ 12,704	$ 10,623
Adjustments in the First Restatement:					
Other GAAP Corrections:					
Life Settlements	(486)	(253)	(142)	(28)	
Affordable Housing	1,452	1,652	1,585	1,427	1,172
All Other Net	245	298	253	245	(1)
Total Adjustments in the First Restatement	1,211	1,697	1,696	1,644	1,171
Other Invested Assets, as Adjusted or Restated in the First Restatement	22,527	18,484	14,376	14,348	11,794
Initial Adjustments in the Second Restatement	(56)	(50)	(45)	3	5
Other Invested Assets, as Restated for the Initial Adjustments	22,471	18,434	14,331	14,351	11,799
Additional Adjustments in the Second Restatement	1,088	(16)	(18)		
Other Invested Assets, as Restated in the Second Restatement	$ 23,559	$ 18,418	$ 14,313	$ 14,351	$ 11,799

Premiums and Insurance Balances Receivable, Net of Allowance

December 31, *(in millions)*	2004	2003	2002	2001	2000
Premium and Insurance Balances Receivable, Net of Allowance, as Previously Announced or Reported	$ 17,202	$ 14,166	$ 13,088	$ 12,412	$ 11,215
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	2,417	1,923	1,477	956	119
Other Risk Transfer	(362)	(389)	(537)	(752)	(932)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	(15)	(265)	(456)	(398)	(306)
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(864)	(918)	(1,142)	(1,166)	(1,249)
Other GAAP Corrections:					
Life Settlements	(3,075)	(1,842)	(774)		

All Other Net	(166)	514	202	(56)	(232)
Total Adjustments in the First Restatement	(2,065)	(977)	(1,230)	(1,416)	(2,600)
Premium and Insurance Balances Receivable, Net of Allowance, as Adjusted or Restated in the First Restatement	15,137	13,189	11,858	10,996	8,615
Initial Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(349)	(349)	(350)	(342)	(326)
Total Initial Adjustments in the Second Restatement	(349)	(349)	(350)	(342)	(326)
Premium and Insurance Balances Receivable, Net of Allowance, as Restated for the Initial Adjustments	14,788	12,840	11,508	10,654	8,289
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	834	989	533	(41)	(275)
Total Additional Adjustments in the Second Restatement	834	989	533	(41)	(275)
Premium and Insurance Balances Receivable, Net of Allowance, as Restated in the Second Restatement	$ 15,622	$ 13,829	$ 12,041	$ 10,613	$ 8,014

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Reinsurance Assets

December 31, *(in millions)*	2004	2003	2002	2001	2000
Reinsurance Assets, as Previously Announced or Reported	$ 26,171	$ 27,962	$ 29,882	$ 27,199	$ 23,386
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	(5,511)	(5,815)	(5,856)	(5,382)	(4,763)
Other Risk Transfer	(529)	(1,185)	(912)	(937)	(1,032)
Fourth Quarter Changes in Estimates:					
Accruals for salvage and subrogation recoveries	(201)				
All Other Net	28	(14)	(63)	(62)	(12)
Total Adjustments in the First Restatement	(6,213)	(7,014)	(6,831)	(6,381)	(5,807)
Reinsurance Assets, as Adjusted or Restated in the First Restatement	19,958	20,948	23,051	20,818	17,579
Initial Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(101)	(101)	(101)	(81)	(41)
Total Initial Adjustments in the Second Restatement	(101)	(101)	(101)	(81)	(41)
Reinsurance Assets, as Restated for the Initial Adjustments	19,857	20,847	22,950	20,737	17,538
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(244)	(202)	(168)	(152)	(170)
Total Additional Adjustments in the Second Restatement	(244)	(202)	(168)	(152)	(170)
Reinsurance Assets, as Restated in the Second Restatement	$ 19,613	$ 20,645	$ 22,782	$ 20,585	$ 17,368

Other Assets

December 31, *(in millions)*	2004	2003	2002	2001	2000
Other Assets, as Previously Announced or Reported	$ 15,062	$ 12,820	$ 7,661	$ 8,000	$ 9,806
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	1,607	2,549	2,760	2,561	2,327

Other Risk Transfer	947	1,126	634	807	989
Net Investment Income:					
Muni Tender Option Bond Program			2,075	2,199	1,449
Conversion of Underwriting Losses to Capital Losses	(5)	(7)	(22)	(67)	(133)
Other GAAP Corrections:					
Life Settlements	341	219	111	29	
Deferred Acquisition Costs (DAC)	(92)	(94)	(146)	(204)	(214)
Affordable Housing	(1,688)	(2,009)	(7)	(5)	(2)
All Other Net	(850)	(414)	(370)	(355)	(241)
Total Adjustments in the First Restatement	260	1,370	5,035	4,965	4,175
Other Assets, as Adjusted or Restated in the First Restatement	15,322	14,190	12,696	12,965	13,981
Initial Adjustments in the Second Restatement	961	800	418	592	278
Other Assets, as Restated for the Initial Adjustments	16,283	14,990	13,114	13,557	14,259
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(181)	(169)	(157)	(172)	(154)
All Other Adjustments Net	23	2	11	36	20
Total Additional Adjustments in the Second Restatement	(158)	(167)	(146)	(136)	(134)
Other Assets, as Restated in the Second Restatement	$ 16,125	$ 14,823	$ 12,968	$ 13,421	$ 14,125

Total Liabilities

December 31, *(in millions)*	2004	2003	2002	2001	2000
Total Liabilities, as Previously Announced or Reported	$ 721,537	$ 606,901	$ 499,973	$ 438,709	$ 375,818
Adjustments in the First Restatement:					
Risk Transfer:					
Other Risk Transfer	123	(406)	(770)	(815)	(972)
Net Investment Income:					
Muni Tender Option Bond Program			2,075	2,199	1,449
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(548)	(548)	(548)	(548)	(609)
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	1,280	1,195	787	162	(783)
Accounting for Deferred Taxes	(1,738)	(1,364)	(917)	(904)	(650)
Life Settlements	(2,847)	(1,626)	(688)	(126)	
Affordable Housing	(204)	(314)	1,625	1,514	1,255
All Other Net	251	93	(939)	(474)	(1,095)
Total Adjustments in the First Restatement	(3,683)	(2,970)	625	1,008	(1,405)
Total Liabilities, as Adjusted or Restated in the First Restatement	717,854	603,931	500,598	439,717	374,413
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	1,917	1,436	432	(124)	91
All Other Adjustments Net	(456)	(315)	(283)	(184)	(143)
Total Initial Adjustments in the Second Restatement	1,461	1,121	149	(308)	(52)
Total Liabilities, as Restated for the Initial Adjustments	719,315	605,052	500,747	439,409	374,361
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	942	1,096	626	31	(242)
All Other Adjustments Net	1,016	32	(210)	(889)	(63)
Total Additional Adjustments in the Second Restatement	1,958	1,128	416	(858)	(305)
Total Liabilities, as Restated in the Second Restatement	$ 721,273	$ 606,180	$ 501,163	$ 438,551	$ 374,056

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Reserve for Losses and Loss Expenses

December 31, *(in millions)*	2004	2003	2002	2001	2000
Reserve for Losses and Loss Expenses, as Previously Announced or Reported	$ 64,641	$ 56,118	$ 51,539	$ 44,792	$ 40,613
Adjustments in the First Restatement:					
Risk Transfer:					
Gen Re	(250)	(500)	(500)	(500)	(250)
Other Risk Transfer	(1,154)	(1,609)	(1,609)	(995)	(748)
Loss Reserves	880	578	236	587	450
Top Level Adjustments and Other Directed Entries (other than loss reserves)		(30)	(306)	(246)	(95)
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(509)	(509)	(509)	(509)	(509)
Other GAAP Corrections:					
Foreign Currency Translation (FAS 52)	(25)	(407)	(882)	(902)	(747)
Life Settlements	(1,734)	(1,026)	(527)	(134)	
Fourth Quarter 2004 Changes in Accounting Estimates:					
Increase in asbestos and environmental loss and loss adjustment expense reserves	850				
Accruals for salvage and subrogation recoveries	31				
All Other Net	(359)	(234)	(347)	(455)	(603)
Total Adjustments in the First Restatement	(2,270)	(3,737)	(4,444)	(3,154)	(2,502)
Reserve for Losses and Loss Expenses, as Adjusted or Restated in the First Restatement	62,371	52,381	47,095	41,638	38,111
Initial Adjustments in the Second Restatement					
Reserve for Losses and Loss Expenses, as Restated for the Initial Adjustments	62,371	52,381	47,095	41,638	38,111
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(498)	(511)	(421)	(432)	(176)
All Other Adjustments Net	5	1			
Total Additional Adjustments in the Second Restatement	(493)	(510)	(421)	(432)	(176)
Reserve for Losses and Loss Expenses, as Restated in the Second Restatement	$ 61,878	$ 51,871	$ 46,674	$ 41,206	$ 37,935

Reserve for Unearned Premiums

December 31, *(in millions)*	2004	2003	2002	2001	2000
Reserve for Unearned Premiums, as Previously Announced or Reported	$ 23,072	$ 20,762	$ 16,336	$ 13,148	$ 12,510
Adjustments in the First Restatement:					
Risk Transfer:					
Other Risk Transfer	82	112	(31)	(131)	(347)
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(81)	(81)	(81)	(81)	(107)
All Other Net	21	117	75	1	(19)
Total Adjustments in the First Restatement	22	148	(37)	(211)	(473)
Reserve for Unearned Premiums, as Adjusted or Restated in the First Restatement	23,094	20,910	16,299	12,937	12,037
Initial Adjustments in the Second Restatement					
Reserve for Unearned Premiums, as Restated for the Initial Adjustments	23,094	20,910	16,299	12,937	12,037
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	344	355	264	278	
All Other Adjustments Net	(38)	(30)	(7)	17	21
Total Additional Adjustments in the Second Restatement	306	325	257	295	21
Reserve for Unearned Premiums, as Restated in the Second Restatement	$ 23,400	$ 21,235	$ 16,556	$ 13,232	$ 12,058

Funds Held by Companies Under Reinsurance Treaties

December 31, *(in millions)*	2004	2003	2002	2001	2000
Funds Held by Companies Under Reinsurance Treaties, as Previously Announced or Reported	$ 5,386	$ 4,664	$ 3,425	$ 2,685	$ 1,435
Adjustments in the First Restatement:					
Risk Transfer:					
Other Risk Transfer	(740)	(1,019)	(1,021)	(1,103)	(1,040)
Other GAAP Corrections:					

Life Settlements	(1,242)	(601)	(193)		
All Other Net		(1)			
Total Adjustments in the First Restatement	(1,982)	(1,621)	(1,214)	(1,103)	(1,040)
Funds Held by Companies Under Reinsurance Treaties, as Adjusted or Restated in the First Restatement	3,404	3,043	2,211	1,582	395
Initial Adjustments in the Second Restatement					
Funds Held by Companies Under Reinsurance Treaties, as Restated for the Initial Adjustments	3,404	3,043	2,211	1,582	395
Additional Adjustments in the Second Restatement					
Funds Held by Companies Under Reinsurance Treaties, as Restated in the Second Restatement	$ 3,404	$ 3,043	$ 2,211	$ 1,582	$ 395

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Other Liabilities

December 31, *(in millions)*	2004	2003	2002	2001	2000
Other Liabilities, as Previously Announced or Reported	$ 21,101	$ 18,282	$ 12,189	$ 10,807	$ 8,645
Adjustments in the First Restatement:					
Risk Transfer:					
Gen Re	250	500	500	500	250
Other Risk Transfer	1,910	2,114	1,850	1,392	1,120
Top Level Adjustments and Other Directed Entries (other than loss reserves)	252	231	251	155	(10)
Net Investment Income:					
Muni Tender Option Bond Program			2,075	2,199	1,449
Other GAAP Corrections:					
Affordable Housing	(30)	(154)	1,770	1,644	1,360
All Other Net	128	218	243	46	(41)
Total Adjustments in the First Restatement	2,510	2,909	6,689	5,936	4,128
Other Liabilities, as Adjusted or Restated in the First Restatement	23,611	21,191	18,878	16,743	12,773
Initial Adjustments in the Second Restatement	139	89	56	13	9
Other Liabilities, as Restated for the Initial Adjustments	23,750	21,280	18,934	16,756	12,782
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	1,348	1,474	972	362	91
All Other Adjustments Net	(43)	(53)	(193)	(244)	(275)
Total Additional Adjustments in the Second Restatement	1,305	1,421	779	118	(184)
Other Liabilities, as Restated in the Second Restatement	$ 25,055	$ 22,701	$ 19,713	$ 16,874	$ 12,598

Total Shareholders Equity

December 31, *(in millions)*	2004	2003	2002	2001	2000
Total Shareholders Equity, as Previously Announced or Reported	$ 82,871	$ 71,253	$ 59,103	$ 52,150	$ 47,439
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	(951)	(873)	(1,033)	(1,213)	(1,340)
Loss Reserves	(572)	(375)	(153)	(381)	(292)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	(206)	(401)	(454)	(342)	(105)
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(290)	(324)	(470)	(484)	(497)
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	1,018	792	1,561	581	577
Accounting for Deferred Taxes	889	761	490	324	166
Life Settlements	(396)	(270)	(129)	(22)	
Affordable Housing	(322)	(297)	(269)	(241)	(195)
Fourth Quarter 2004 Changes in Estimates Effect on Statement of Income	(1,187)				
All Other Net	(247)	(236)	159	156	271
Total Adjustments in the First Restatement	(2,264)	(1,223)	(298)	(1,622)	(1,415)
Total Shareholders Equity, as Adjusted or Restated in the First Restatement	80,607	70,030	58,805	50,528	46,024
Initial Adjustments in the Second Restatement	(79)	(87)	(26)	(273)	(374)
Total Shareholders Equity, as Restated for the Initial Adjustments	80,528	69,943	58,779	50,255	45,650
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(534)	(478)	(417)	(397)	(356)
All Other Adjustments Net	(321)	(235)	(59)	23	(55)
Total Additional Adjustments in the Second Restatement	(855)	(713)	(476)	(374)	(411)
Total Shareholders Equity, as Restated in the Second Restatement	$ 79,673	$ 69,230	$ 58,303	$ 49,881	$ 45,239

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Accumulated Other Comprehensive Income (Loss)

December 31, *(in millions)*	2004	2003	2002	2001	2000
Accumulated Other Comprehensive Income (Loss), as Previously Announced or Reported	$ 6,373	$ 4,244	$ 691	$ (1,724)	$ (2,440)
Adjustments in the First Restatement:					
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	1,412	1,439	1,424	121	(134)
Accounting for Deferred Taxes	938	805	511	324	166
Foreign Currency Translation (FAS 52)	305	408	451	387	355
All Other Net	565	348	549	953	465
Total Adjustments in the First Restatement	3,220	3,000	2,935	1,785	852
Accumulated Other Comprehensive Income (Loss), as Adjusted or Restated in the First Restatement	9,593	7,244	3,626	61	(1,588)
Initial Adjustments in the Second Restatement	(80)	176	290	(19)	(146)
Accumulated Other Comprehensive Income (Loss), as Restated for the Initial Adjustments	9,513	7,420	3,916	42	(1,734)
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(16)	9	39	3	
All Other Adjustments Net	(53)	(92)	122	186	84
Total Additional Adjustments in the Second Restatement	(69)	(83)	161	189	84
Accumulated Other Comprehensive Income (Loss), as Restated in the Second Restatement	$ 9,444	$ 7,337	$ 4,077	$ 231	$ (1,650)

CONSOLIDATED STATEMENT OF INCOME ACCOUNTS

Net Income

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Net Income, as Previously Announced or Reported	$ 11,048	$ 9,274	$ 5,519	$ 5,363	$ 6,639
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	(78)	160	180	127	(368)
Loss Reserves	(196)	(222)	228	(89)	(145)
Net Investment Income:					
Covered Calls	59	(40)	35	(59)	
Hedge Fund Accounting	2	19	120	(133)	(122)
Muni Tender Option Bond Program	60	(57)	(2)	(119)	14
Top Level Adjustments and Other Directed Entries (other than loss reserves)	213	26	(112)	(241)	(112)
Conversion of Underwriting Losses to Capital Losses	79	20	(65)	66	(133)
Asset Realization:					
Other Than Temporary Declines	2	301	200	(136)	(132)
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	252	(783)	(323)	(252)	822
Accounting for Deferred Taxes	(5)	(23)	(22)		
Foreign Currency Translation (FAS 52)	(124)	(193)	(53)	75	119
Life Settlements	(129)	(136)	(107)	(22)	
SICO Deferred Compensation	(56)	(275)	173	(45)	(293)
Fourth Quarter 2004 Changes in Estimates	(1,187)				
All Other Net	(209)	(62)	95	(363)	(148)
Total Adjustments in the First Restatement	(1,317)	(1,265)	347	(1,191)	(498)
Net Income, as Adjusted or Restated in the First Restatement	9,731	8,009	5,866	4,172	6,141
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	133	138	21	54	62
Manufacturers Payments Received by ILFC	(46)	(67)	(72)	(37)	(29)
All Other Adjustments Net	152	(27)	(25)	(59)	(71)
Total Initial Adjustments in the Second Restatement	239	44	(76)	(42)	(38)
Net Income, as Restated for the Initial Adjustments	9,970	8,053	5,790	4,130	6,103
Additional Adjustments in the Second Restatement:					
Asset Realization:					

Domestic Brokerage Group (DBG) Issues	(33)	(31)	(55)	(42)	(21)
All Other Adjustments Net	(98)	86	(6)	(2)	(38)
Total Additional Adjustments in the Second Restatement	(131)	55	(61)	(44)	(59)
Net Income, as Restated in the Second Restatement	$ 9,839	$ 8,108	$ 5,729	$ 4,086	$ 6,044

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Premiums and Other Considerations

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Premiums and Other Considerations, as Previously Announced or Reported	$ 67,852	$ 55,226	$ 45,135	$ 39,194	$ 35,298
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	386	439	673	726	251
Gen Re	245			(258)	(250)
Other Risk Transfer	(287)	33	(856)	(924)	(815)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	130	250	(199)	(272)	(184)
Other GAAP Corrections:					
Life Settlements	(915)	(809)	(603)	(147)	
Commutations	(370)	(405)	(79)	4	(312)
All Other Net	(448)	146	188	209	39
Total Adjustments in the First Restatement	(1,259)	(346)	(876)	(662)	(1,271)
Premiums and Other Considerations, as Adjusted or Restated in the First Restatement	66,593	54,880	44,259	38,532	34,027
Initial Adjustments in the Second Restatement	5	5	4	1	1
Premiums and Other Considerations, as Restated for the Initial Adjustments	66,598	54,885	44,263	38,533	34,028
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	12	(91)	15	(278)	
All Other Adjustments Net	15	8	11	6	19
Total Additional Adjustments in the Second Restatement	27	(83)	26	(272)	19
Premiums and Other Considerations, as Restated in the Second Restatement	$ 66,625	$ 54,802	$ 44,289	$ 38,261	$ 34,047

Net Investment Income

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Net Investment Income, as Previously Announced or Reported	$ 19,127	$ 16,596	$ 14,714	$ 13,698	$ 12,831
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	259	304	233	179	140
Net Investment Income:					
Covered Calls	35	(179)	(7)	(146)	
Synthetic Fuel Investment	(203)	(238)	(259)	(31)	
Hedge Fund Accounting	11	29	159	(177)	(101)
Muni Tender Option Bond Program	65	60	44	11	
DBG/AIG Capital Corporation Intercompany Dividend	(100)	(100)			
Top Level Adjustments and Other Directed Entries (other than loss reserves)	(384)	(783)	(733)	(514)	(155)
Other GAAP Corrections:					
Life Settlements	(134)	(143)	(114)	(20)	
All Other Net	(242)	(78)	(316)	15	8
Total Adjustments in the First Restatement	(693)	(1,128)	(993)	(683)	(108)
Net Investment Income, as Adjusted or Restated in the First Restatement	18,434	15,468	13,721	13,015	12,723
Initial Adjustments in the Second Restatement	(12)	(7)	(70)	(9)	(4)
Net Investment Income, as Restated for the Initial Adjustments	18,422	15,461	13,651	13,006	12,719
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	38	46	(55)	(4)	
All Other Adjustments Net	5	1	(3)		
Total Additional Adjustments in the Second Restatement	43	47	(58)	(4)	
Net Investment Income, as Restated in the Second Restatement	$ 18,465	$ 15,508	$ 13,593	$ 13,002	$ 12,719

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Realized Capital Gains (Losses)

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Realized Capital Gains (Losses), as Previously Announced or Reported	$ (92)	$ (1,433)	$ (2,441)	$ (836)	$ (314)
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	(48)	(17)	105	39	61
Net Investment Income:					
Covered Calls	57	118	61	55	
Muni Tender Option Bond Program	27	(148)	(47)	(194)	22
Top Level Adjustments and Other Directed Entries (other than loss reserves)	108	559	374	223	126
Conversion of Underwriting Losses to Capital Losses	116	19	48	66	58
Asset Realization:					
Other Than Temporary Declines	4	463	307	(209)	(202)
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	(109)	104	(14)	(36)	
Foreign Currency Translation (FAS 52)	(127)	(193)	(52)	44	
Dollar Roll Transactions	16	(98)	157	(46)	26
All Other Net	24	6	204	(25)	(16)
Total Adjustments in the First Restatement	68	813	1,143	(83)	75
Realized Capital Gains (Losses), as Adjusted or Restated in the First Restatement	(24)	(620)	(1,298)	(919)	(239)
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	42	170	(386)	9	11
Total Initial Adjustments in the Second Restatement	42	170	(386)	9	11
Realized Capital Gains (Losses), as Restated for the Initial Adjustments	18	(450)	(1,684)	(910)	(228)
Additional Adjustments in the Second Restatement	26	8	31		(12)
Realized Capital Gains (Losses), as Restated in the Second Restatement	$ 44	$ (442)	$ (1,653)	$ (910)	$ (240)

Other Revenues

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Other Revenues, as Previously Announced or Reported	$ 11,728	$ 10,914	$ 10,074	$ 9,710	$ 8,523
Adjustments in the First Restatement:					
Net Investment Income:					
Synthetic Fuel Investment	(143)	(200)	(165)	(212)	(79)
Hedge Fund Accounting	(9)		26	(27)	(87)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	267	89	92	70	80
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	524	(1,357)	(503)	(370)	1,265
SunAmerica Partnerships	661	323	243	475	764
All Other Net	(44)	(51)	11	(104)	(126)
Total Adjustments in the First Restatement	1,256	(1,196)	(296)	(168)	1,817
Other Revenues, as Adjusted or Restated in the First Restatement	12,984	9,718	9,778	9,542	10,340
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	(242)	(167)	276	138	
Manufacturers Payments Received by ILFC	(115)	(145)	(147)	(89)	(71)
All Other Adjustments Net	14	8	10	3	5
Total Initial Adjustments in the Second Restatement	(343)	(304)	139	52	(66)
Other Revenues, as Restated for the Initial Adjustments	12,641	9,414	9,917	9,594	10,274
Additional Adjustments in the Second Restatement	(109)	139	25	11	(100)
Other Revenues, as Restated in the Second Restatement	$ 12,532	$ 9,553	$ 9,942	$ 9,605	$ 10,174

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Incurred Policy Losses and Benefits

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Incurred Policy Losses and Benefits, as Previously Announced or Reported	$ 57,697	$ 46,390	$ 41,402	$ 34,864	$ 30,776
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	671	433	683	638	955
Gen Re	250			(258)	(250)
Other Risk Transfer	(159)	53	(862)	(561)	(739)
Loss Reserves	302	342	(351)	137	223
Top Level Adjustments and Other Directed Entries (other than loss reserves)	57	195	(337)	(417)	(97)
Other GAAP Corrections:					
Life Settlements	(850)	(743)	(552)	(134)	
Deferred Acquisition Costs (DAC)	(265)	(231)	(188)	(133)	(134)
Commutations	(370)	(405)	(79)	4	(312)
Fourth Quarter 2004 Changes in Accounting Estimates:					
Increase in asbestos and environmental loss and loss adjustment expense reserves	850				
Accrual for salvage and subrogation recoveries	232				
All Other Net	(102)	111	271	109	187
Total Adjustments in the First Restatement	616	(245)	(1,415)	(615)	(167)
Incurred Policy Losses and Benefits, as Adjusted or Restated in the First Restatement	58,313	46,145	39,987	34,249	30,609
Initial Adjustments in the Second Restatement	21	23	(14)		16
Incurred Policy Losses and Benefits, as Restated for the Initial Adjustments	58,334	46,168	39,973	34,249	30,625
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	13	(90)	11	(255)	
All Other Adjustments Net	13	(44)	21	(10)	2
Total Additional Adjustments in the Second Restatement	26	(134)	32	(265)	2
Incurred Policy Losses and Benefits, as Restated in the Second Restatement	$ 58,360	$ 46,034	$ 40,005	$ 33,984	$ 30,627

Insurance Acquisition and Other Operating Expenses

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Insurance Acquisition and Other Operating Expenses, as Previously Announced or Reported	$ 23,668	$ 21,005	$ 17,938	$ 16,746	$ 15,224
Adjustments:					
Risk Transfer:					
Union Excess	48	48	52	111	63
Other Risk Transfer	(112)	(62)	(35)	(242)	(65)
Net Investment Income:					
DBG/AIG Capital Corporation Intercompany Dividend	(100)	(100)			
Top Level Adjustments and Other Directed Entries (other than loss reserves)	(229)	(115)	47	272	95
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(52)	(224)	(23)	(22)	(27)
Other GAAP Corrections:					
Deferred Acquisition Costs (DAC)	321	287	285	450	310
SICO Deferred Compensation	56	275	(173)	45	293
SunAmerica Partnerships	661	353	247	475	764
All Other Net	463	179	153	155	95
Total Adjustments in the First Restatement	1,056	641	553	1,244	1,528
Insurance Acquisition and Other Operating Expenses, as Adjusted or Restated in the First Restatement	24,724	21,646	18,491	17,990	16,752
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)	(321)	(236)	(139)	(26)	(2)
Manufacturers Payments Received by ILFC	(45)	(41)	(36)	(31)	(26)
All Other Adjustments Net	15	10	(3)	64	60
Total Initial Adjustments in the Second Restatement	(351)	(267)	(178)	7	32
Insurance Acquisition and Other Operating Expenses, as Restated for the Initial Adjustments	24,373	21,379	18,313	17,997	16,784
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	86	93	35	37	31
All Other Adjustments Net	2	8	10	6	4
Total Additional Adjustments in the Second Restatement	88	101	45	43	35

Insurance Acquisition and Other Operating Expenses, as Restated in the Second Restatement	$ 24,461	$ 21,480	$ 18,358	$ 18,040	$ 16,819

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Income Taxes (Current and Deferred)

Years Ended December 31, *(in millions)*	2004	2003	2002	2001	2000
Income Taxes (Current and Deferred), as Previously Announced or Reported	$ 5,473	$ 4,264	$ 2,328	$ 2,339	$ 2,971
Adjustments:					
Net Investment Income:					
Synthetic Fuel Investment	(346)	(438)	(424)	(243)	(79)
All Other Net	(507)	(423)	52	(591)	(53)
Total Adjustments in the First Restatement	(853)	(861)	(372)	(834)	(132)
Income Taxes (Current and Deferred), as Adjusted or Restated in the First Restatement	4,620	3,403	1,956	1,505	2,839
Initial Adjustments in the Second Restatement:					
Income Tax Accounting	(169)	5	9	13	22
All Other Adjustments Net	(48)	59	(54)	75	(90)
Total Initial Adjustments in the Second Restatement	(217)	64	(45)	88	(68)
Income Taxes (Current and Deferred), as Restated for the Initial Adjustments	4,403	3,467	1,911	1,593	2,771
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(16)	(17)	(31)	(22)	(10)
All Other Adjustments Net	20	106	39	23	(61)
Total Additional Adjustments in the Second Restatement	4	89	8	1	(71)
Income Taxes (Current and Deferred), as Restated in the Second Restatement	$ 4,407	$ 3,556	$ 1,919	$ 1,594	$ 2,700

Overview of Operations and Business Results

In 2003 and prior years, AIG s operations were conducted by its subsidiaries principally through four operating segments: General Insurance, Life Insurance, Financial Services and Retirement Services & Asset Management. Beginning with the first quarter of 2004, AIG reports Retirement Services results in the same segment as Life Insurance, reflecting the convergence of protective financial and retirement products and AIG s current management of these operations. All financial information herein gives effect to the Restatements and adjustments for changes in estimates described in Restatements of Previously Issued Financial Statements and Fourth Quarter 2004 Changes in Estimates herein. Information for years prior to 2004 included herein has been reclassified to show AIG s results of operations and financial position on a comparable basis with the 2004 presentation.

Through these segments, AIG provides insurance and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions. This geographic, product and service diversification is one of AIG s major strengths and sets it apart from its competitors. The importance of this diversification was especially evident in 2004, when record catastrophe losses in certain insurance operations were more than offset by profitability in those operations as well as in other segments and product lines. Although regional economic downturns or political upheaval could negatively affect parts of AIG s operations, AIG believes that its diversification makes it unlikely that regional difficulties would have a material effect on its operating results, financial condition or liquidity.

AIG s subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and one of the largest life insurance and retirement services operations as well. AIG s Financial Services businesses include commercial aircraft and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services and offers guaranteed investment contracts (GICs) to institutions and individuals.

AIG s 2004 operating performance reflects implementation of various long-term strategies and defined goals in its various operating segments.

A primary goal of AIG in managing its General Insurance operations is to achieve an underwriting profit. To achieve this goal, AIG must be disciplined in its risk selection and premiums must be adequate and terms and conditions appropriate to cover the risk accepted. AIG believes in strict control of expenses.

Another central focus of AIG operations in current years is the development and expansion of new distribution channels. In 2004, AIG expanded its distribution channels in many Asian countries, which now include banks, credit card companies and television-media home shopping. In late 2003, AIG entered into an agreement with PICC Property and Casualty Company, Limited (PICC), which will enable the marketing of accident and health products throughout China through PICC s branch networks and agency system. AIG participates in the underwriting results through a reinsurance agreement and also holds a 9.9 percent ownership interest in PICC. Other examples of new distribution channels used both domestically and overseas include banks, affinity groups, direct response and e-commerce.

AIG patiently builds relationships in markets around the world where it sees long-term growth opportunities. For example, the fact that AIG has the only wholly-owned foreign life insurance operations in eight cities in China is the result of relationships developed over nearly 30 years. AIG s more recent extensions of operations into India, Vietnam, Russia and other emerging markets reflect the same growth strategy. Moreover, AIG believes in investing in the economies and infrastructures of these countries and growing with them. When AIG companies enter a new jurisdiction, they typically offer both basic protection and savings products. As the economies evolve, AIG s products evolve with them, to more complex and investment-oriented models.

Growth for AIG may be generated both internally and through acquisitions which both fulfill strategic goals and offer adequate return on investment. In recent years, the acquisitions of AIG Star Life and AIG Edison Life have broadened AIG s penetration of the Japanese market through new distribution channels and will result in operating efficiencies as they are integrated into AIG s previously existing companies operating in Japan.

AIG provides leadership on issues of concern to the global and local economies as well as the insurance and financial services industries. In recent years, efforts to reform the tort system and class action litigation procedures, legislation to deal with the asbestos problem and the renewal of the Terrorism Risk Insurance Act have been key issues, while in prior years trade legislation and Superfund had been issues of concern.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

The following table summarizes AIG s revenues, income before income taxes, minority interest and cumulative effect of accounting changes and net income for the twelve months ended December 31, 2004, 2003 and 2002:

Years Ended December 31, *(in millions)*	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Total revenues	$ 97,666	$ 79,421	$ 66,171
Income before income taxes, minority interest and cumulative effect of accounting changes	14,845	11,907	7,808
Net income	$ 9,839	$ 8,108	$ 5,729

Consolidated Results

The 23.0 percent growth in revenues in 2004 was primarily attributable to the growth in net premiums earned from global General Insurance operations as well as growth in both General Insurance and Life Insurance & Retirement Services net investment income and Life Insurance & Retirement Services GAAP premiums. An additional factor was the capital gains realized in 2004 rather than the capital losses realized in 2003.

The realized capital gains in 2004 reflects an improved economy, stronger corporate balance sheets and a significantly lower level of impairment loss provisions. The realized capital losses in 2003 reflect primarily impairment loss provisions. Upon the ultimate disposition of these holdings, a portion of these losses may be recovered depending on future market conditions.

AIG s income before income taxes, minority interest and cumulative effect of accounting changes increased 24.7 percent in 2004 when compared to 2003. Life Insurance & Retirement Services, Financial Services and Asset Management operating income gains, together with the realized capital gains, generated the increase over 2003 in both pretax income and net income.

The following table summarizes the net effect of catastrophe losses for December 31, 2004, 2003 and 2002.

(in millions)	2004	2003	2002
Pretax	$ 1,155*	$ 83	$ 61
Net of tax and minority interest	729	53	36

* *Includes $96 million in catastrophe losses from partially owned companies.*

The following table summarizes the operations of each principal segment for the twelve months ended December 31, 2004, 2003 and 2002. See also Note 3 of Notes to Consolidated Financial Statements.

(in millions)	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Revenues*(a)*:			
General Insurance*(b)*	$ 41,961	$ 33,833	$ 25,600
Life Insurance & Retirement Services*(c)*	43,400	36,678	31,565
Financial Services*(d)*	7,495	6,242	6,822
Asset Management*(e)*	4,714	3,651	3,467

Other	96	(983)	(1,283)
Total	$ 97,666	$ 79,421	$ 66,171
Operating Income*(a)(f)(g)*:			
General Insurance	$ 3,177*(h)*	$ 4,502	$ 923*(i)*
Life Insurance & Retirement Services	7,923	6,807	5,181
Financial Services	2,180	1,182	2,125
Asset Management	2,125	1,316	1,125
Other*(j)*	(560)	(1,900)	(1,546)
Total	$ 14,845	$ 11,907	$ 7,808

(a) Revenues and operating income reflect the adjustments necessary pursuant to FAS 133. See Restatements of Previously Issued Financial Statements Accounting for Derivatives (FAS 133 Hedge Accounting).
(b) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).
(c) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).
(d) Represents interest, lease and finance charges.
(e) Represents management and advisory fees, and net investment income with respect to GICs.
(f) Represents income before income taxes, minority interest, and cumulative effect of accounting changes.
(g) Catastrophe losses were $1.16 billion, $83 million and $61 million in 2004, 2003 and 2002, respectively.
(h) Includes $850 million charge reflecting the change in estimates for asbestos and environmental reserves and $232 million charge reflecting change in estimate for salvage and subrogation recoveries in 2004.
(i) Includes loss reserve charge of $2.1 billion.
(j) Represents other income (deductions)-net and other realized capital gains (losses).

General Insurance

AIG s General Insurance operations provide property and casualty products and services throughout the world. General Insurance operating income includes catastrophe losses of $1.05 billion, $83 million and $61 million in 2004, 2003 and 2002, respectively. In addition, General Insurance operations generated realized capital gains of $228 million in 2004 compared to realized capital losses of $39 million in 2003. General Insurance operating income in 2003 was substantially higher than 2002 due to the $2.1 billion reserve charge in 2002.

Life Insurance & Retirement Services

AIG s Life Insurance & Retirement Services operations provide insurance, financial and investment products throughout the world. Foreign operations provide over 61 percent of AIG s Life Insurance & Retirement Services operating income.

Life Insurance & Retirement Services operating income increased by 16.4 percent in 2004. This increase resulted from growth in each of AIG s principal Life Insurance & Retirement Services businesses. Life Insurance & Retirement Services operating income also grew in 2003 relative to 2002 by 31.4 percent.

Financial Services

AIG s Financial Services subsidiaries engage in diversified financial products and services including aircraft leasing, capital market transactions, consumer finance and insurance premium financing.

Financial Services operating income increased in 2004 compared to 2003 primarily due to the fluctuation in earnings resulting from derivative activities that did not qualify for hedge accounting under FAS 133. Offsetting this increase is the effect of ILFC s disposition of approximately $2 billion in aircraft through securitizations in the third quarter of 2003 and first quarter of 2004. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations and the effect of the FAS 133 adjustments. The charge relating to the PNC settlement, see Item 3. Legal Proceedings, also had a significant negative effect on results. Consumer Finance operations increased revenues and operating income, both domestically and internationally.

Asset Management

AIG s Asset Management operations include institutional and retail asset management and broker dealer services and spread-based investment business from the sale of GICs. These products and services are offered to individuals and institutions, both domestically and overseas.

Asset Management operating income increased 61.5 percent in 2004 when compared to 2003 as a result of the upturn in worldwide financial markets and a strong global product portfolio; operating income also increased in 2003 when compared to 2002.

Capital Resources

At December 31, 2004, AIG had total consolidated shareholders equity of $79.67 billion and total borrowings of $96.90 billion. At that date, $86.91 billion of such borrowings were either not guaranteed by AIG or were matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

During 2004, AIG repurchased in the open market 16,299,300 shares of its common stock.

Liquidity

At December 31, 2004, AIG s consolidated invested assets included $18.11 billion in cash and short-term investments. Consolidated net cash provided from operating activities in 2004 amounted to $30.72 billion. AIG believes that its liquid assets, cash provided by operations and access to short term funding through commercial paper and bank credit facilities will enable it to meet any anticipated cash requirements.

Outlook

From March through June of 2005, the major rating agencies downgraded AIG s ratings in a series of actions. S&P lowered the long-term senior debt and counterparty ratings of AIG from AAA to AA and changed the rating outlook to negative. Moody s lowered AIG s long-term senior debt rating from Aaa to Aa2 and changed the outlook to stable. Fitch downgraded the long-term senior debt ratings of AIG from AAA to AA and

placed the ratings on Rating Watch Negative.

The agencies also took rating actions on AIG s insurance subsidiaries. S&P and Fitch lowered to AA+ the insurance financial strength ratings of most of AIG s insurance companies. Moody s lowered the insurance financial strength ratings generally to either Aa1 or Aa2 . A.M. Best downgraded the financial strength ratings for most of AIG s insurance subsidiaries from A++ to A+ and the issuer credit ratings from aa+ to aa-. Many of these companies ratings remain on a negative watch.

In addition, S&P changed the outlook on ILFC s AA- long-term senior debt rating to negative. Moody s affirmed ILFC s long-term and short-term senior debt ratings (A1 / P-1). Fitch downgraded ILFC s long-term senior debt rating from AA- to A+ and placed the rating on Rating Watch Negative and downgraded ILFC s short-term debt rating from F1+ to F1 . Fitch also placed the A+ long-term senior debt ratings of American General Finance Corporation and American General Finance, Inc. on Rating Watch Negative. S&P and Moody s affirmed the long-term and short-term senior debt ratings of American General Finance Corporation at A+ / A-1 and A1 / P-1 , respectively.

These debt and financial strength ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

based on other circumstances. Ratings may also be withdrawn at AIG management s request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries. For a discussion of the effect of these ratings downgrades on AIG s businesses, see Certain Factors Affecting AIG s Business AIG s Credit Ratings in Item 1. Business.

Despite industry price erosion in some classes of general insurance, AIG expects to continue to identify profitable opportunities and build attractive new General Insurance businesses as a result of AIG s broad product line and extensive distribution networks. AIG expects total General Insurance premiums to increase for 2005 and expects cash flow for investments to remain strong. Thus, General Insurance net investment income is expected to rise in future quarters even in a continued low interest rate environment.

In China, AIG has wholly-owned life insurance operations in eight cities. These operations should benefit from China s rapid rate of economic growth and growing middle class, a segment that is a prime market for life insurance. AIG believes that it may also have opportunities in the future to grow by entering the group insurance business. However, in March 2005 it withdrew its application to serve the group insurance market until certain regulatory issues are resolved. Among the regulatory issues to be addressed is the response to AIG s acknowledgment that certain of its Hong Kong based agents sold life insurance to customers on the Chinese mainland in contravention of applicable regulations.

AIG Edison Life, acquired in August 2003, adds to the current agency force in Japan, and provides alternative distribution channels including banks, financial advisers, and corporate and government employee relationships. AIG Edison Life s integration into AIG s existing Japanese operations will provide future operating efficiencies. In January 2005, AIG Star Life entered into an agreement with the Bank of Tokyo Mitsubishi, one of Japan s largest banks, to market a multi-currency fixed annuity. Through ALICO, AIG Star Life and AIG Edison, AIG has developed a leadership position in the distribution of annuities through banks. AIG is also a leader in the direct marketing of insurance products through sponsors and in the broad market. AIG also expects continued growth in India, Korea and Vietnam.

Domestically, AIG anticipates continued operating growth in 2005 as distribution channels are expanded and new products are introduced. The home service operation has not met business objectives, although its cash flow has been strong, and domestic group life/health was also weak in 2004. AIG American General s current ratings remain equal to or higher than many of its principal competitors. In addition, recent events have caused independent producers and distributors of AIG American General s products to be more cautious in placing business with AIG. Therefore, AIG is unable to predict the effect of these issues on AIG s business, including any increase in associated surrender or replacement activity.

In the airline industry, changes in market conditions are not immediately apparent in operating results. Lease rates have firmed considerably, as a result of strong demand spurred by the recovering global commercial aviation market, especially in Asia. Sales have begun to increase, and AIG expects an increasing level of interest from a variety of purchasers. Therefore, AIG believes that the improvements in that market which commenced in 2003 will be gradually reflected in ILFC s results in 2005. In the Capital Markets operations, the integration of AIG Trading Group Inc. and its subsidiaries into the operations of AIG Financial Products Corp. and its subsidiaries created operating efficiencies that will continue to be realized, although quarter to quarter variations are to be expected in this transaction-oriented business. AIG also expects increased contributions to Financial Services revenues and income from its consumer finance operations both domestically and overseas. However, the downgrades of AIG s credit ratings may adversely affect funding costs for AIG and its subsidiaries and AIGFP s ability to engage in derivative transactions and certain structured products. See Certain Factors Affecting AIG s Business AIG s Credit Ratings in Item 1. Business.

GICs, which are sold domestically and abroad to both institutions and individuals, are written on an opportunistic basis when market conditions are favorable. AIG expects to launch a matched investment program utilizing issuances of AIG debt securities, which will become AIG s principal spread-based investment activity. However, in light of recent developments, the timing of the launch of this program is uncertain. Because AIG s credit spreads in the capital markets have widened following the ratings declines, there may be a reduction in the earnings on new business in AIG s spread based funding businesses.

AIG has many promising growth initiatives underway around the world in its insurance and other operations. Cooperative agreements such as those with PICC and various banks in the U.S., Japan and Korea are expected to expand distribution networks for AIG s products and provide models for future growth.

For a description of Certain Factors Affecting AIG s Business see Item 1. Business.

Critical Accounting Estimates

AIG considers its most critical accounting estimates those with respect to reserves for losses and loss expenses, future policy benefits for life and accident and health contracts, deferred policy acquisition costs, estimated gross profits for investment-oriented products, fair value determinations for certain Capital Markets assets and liabilities and other than temporary declines in value investments. These accounting estimates require the use of assumptions about matters, some of which are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, AIG s results of operations would be directly affected.

Throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, AIG s critical accounting estimates are discussed in detail. The major categories for which assumptions are developed and used to establish each critical accounting estimate are highlighted below.

Reserves for Losses and Loss Expenses (General Insurance):

- *Loss trend factors:* used to establish expected loss ratios for subsequent accident years based on premium rate adequacy and the projected loss ratio with respect to prior accident years.
- *Expected loss ratios for the latest accident year:* in this case, accident year 2004 for the year end 2004 loss reserve analysis. For low-frequency, high-severity classes such as excess casualty and directors and officers liability (D&O), expected loss ratios generally are utilized for at least the three most recent accident years.
- *Loss development factors:* used to project the reported losses for each accident year to an ultimate amount.

Future Policy Benefits for Life and Accident and Health Contracts (Life Insurance & Retirement Services):

- *Interest rates:* which vary by geographical region, year of issuance and products.
- *Mortality, morbidity and surrender rates:* based upon actual experience by geographical region modified to allow for variation in policy form.

Deferred Policy Acquisition Costs (General Insurance):

- Recoverability and eligibility based upon the current terms and profitability of the underlying insurance contracts.

Estimated Gross Profits (Life Insurance & Retirement Services):

- Estimated gross profits to be realized over the estimated duration of the contracts (investment-oriented products) affects the carrying value of deferred policy acquisition costs under FAS 97. Estimated gross profits include investment income and gains and losses on investments less required interest, actual mortality and other expenses.

Fair Value Determinations of Certain Assets and Liabilities (Financial Services Capital Markets):

- *Valuation models:* utilizing factors, such as market liquidity and current interest, foreign exchange and volatility rates.
- AIG attempts to secure reliable and independent current market price data, such as published exchange rates from external subscription services such as Bloomberg or Reuters or third-party broker quotes for use in this model. When

such prices are not available, AIG uses an internal methodology, which includes interpolation from verifiable prices from trades occurring on dates nearest to the dates of the transactions.

Other Than Temporary Declines in Value Investments:

Securities are considered a candidate for impairment based upon the following criteria:

- Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine months or longer).

- The occurrence of a discrete credit event resulting in the debtor default, seeking bankruptcy or insolvency protection or voluntary reorganization.

The possibility of non-realization of a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Operating Review

General Insurance Operations

AIG s General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance both domestically and abroad. See General Insurance Operations in Item 1. Business for more information relating to General Insurance subsidiaries.

As previously noted, AIG believes it should present and discuss its financial information in a manner most meaningful to its investors. Accordingly, in its General Insurance business, AIG uses certain non-GAAP measures, where AIG has determined these measurements to be useful and meaningful.

A critical discipline of a successful general insurance business is the objective to produce operating income from underwriting exclusive of investment-related income. When underwriting is not profitable, premiums are inadequate to pay for insured losses and underwriting related expenses. In these situations, the addition of general insurance related investment income and realized capital gains may, however,

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

enable a general insurance business to produce operating income. For these reasons, AIG views underwriting profit to be critical in the overall evaluation of performance. Although in and of itself not a GAAP measurement, AIG believes that underwriting profit is a useful and meaningful disclosure. See also the discussion under Liquidity herein.

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

Statutory underwriting profit is derived by reducing net premiums earned by net losses and loss expenses incurred and net expenses incurred. Statutory accounting generally requires immediate expense recognition and ignores the matching of revenues and expenses as required by GAAP. That is, for statutory purposes, expenses are recognized immediately, not over the same period that the revenues are earned.

A basic premise of GAAP accounting is the recognition of expenses at the same time revenues are earned, the accounting principle of matching. Therefore, to convert underwriting results to a GAAP basis, acquisition expenses are deferred (deferred policy acquisition costs (DAC)) and amortized over the period the related net premiums written are earned. Accordingly, the statutory underwriting profit has been adjusted as a result of acquisition expenses being deferred as required by GAAP. DAC is reviewed for recoverability, and such review requires management judgment. See also Critical Accounting Estimates herein and Notes 1, 2 and 4 of Notes to Consolidated Financial Statements.

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

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

The underwriting environment varies from country to country, as does the degree of litigation activity. Regulation, product type and competition have a direct effect on pricing and consequently on profitability as reflected in underwriting profit and statutory general insurance ratios.

General Insurance operating income is comprised of underwriting profit (loss), net investment income and realized capital gains and losses. These components, as well as net premiums written, net premiums earned and statutory ratios for 2004, 2003 and 2002 were as follows:

(in millions, except ratios)	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Net premiums written:			
Domestic General			
DBG	$ 22,506	$ 19,563	$ 14,326
Transatlantic	3,749	3,341	2,500
Personal Lines	4,354	3,732	3,208
Mortgage Guaranty	607	531	508
Foreign General	9,407	7,864	6,176
Total	$ 40,623	$ 35,031	$ 26,718
Net premiums earned:			
Domestic General			
DBG	$ 21,215	$ 16,704	$ 12,200
Transatlantic	3,661	3,171	2,370
Personal Lines	4,291	3,678	2,939
Mortgage Guaranty	539	496	502
Foreign General	8,831	7,257	5,584
Total	$ 38,537	$ 31,306	$ 23,595
Underwriting profit (loss)*(a)*:			
Domestic General			
DBG	$ (1,340)*(b)*	$ 387	$ (1,627)*(c)*
Transatlantic	(47)	109	(57)*(c)*
Personal Lines	160	183	(136)*(d)*
Mortgage Guaranty	278	264	247
Foreign General*(e)*	702*(f)*	1,032	491
Total	$ (247)	$ 1,975	$ (1,082)
Net investment income:			
Domestic General			
DBG	$ 1,965	$ 1,433	$ 1,397
Transatlantic	307	271	252
Personal Lines	186	152	167
Mortgage Guaranty	120	142	139
Intercompany adjustments and eliminations net		7	23
Foreign General	618	561	372
Total	$ 3,196	$ 2,566	$ 2,350
Realized capital gains (losses)	228	(39)	(345)

Operating income*(a)*	$ 3,177*(b)(f)*	$ 4,502	$ 923*(c)(d)*
Domestic General:			
Loss ratio	83.88	78.35	90.06
Expense ratio	19.21	17.25	19.28
Combined ratio	103.09	95.60	109.34
Foreign General:			
Loss ratio	61.61	55.52	60.74
Expense ratio*(e)*	29.20	27.82	30.19
Combined ratio*(e)*	90.81	83.34	90.93
Consolidated:			
Loss ratio*(g)*	78.78	73.06	83.12
Expense ratio	21.52	19.62	21.81
Combined ratio	100.30	92.68	104.93

(a) Catastrophe losses for 2004 by reporting unit were: DBG $582 million, Personal Lines $25 million, Transatlantic $215 million and Foreign General $232 million. Catastrophe losses for 2003 by reporting unit were: DBG $48 million, Personal Lines $5 million, Transatlantic $4 million and Foreign General $26 million. Catastrophe losses in 2002 by reporting unit were: DBG $20 million and Foreign General $41 million.
(b) Includes fourth quarter charge of $700 million attributable to the change in estimate for asbestos and environmental reserves.
(c) Includes loss reserve charge of $2.1 billion in the aggregate.
(d) Includes 21st Century s loss adjustment expense pretax provision of $43 million for SB1899 Northridge earthquake claims.
(e) Includes the results of wholly owned AIU agencies.
(f) Includes fourth quarter charge of $150 million attributable to the change in estimate for asbestos and environmental reserves.
(g) The effect of the asbestos and environmental charge on the loss ratio was an increase of 2.21 in 2004. The effect of catastrophe losses on the loss ratio was an increase of 2.74 in 2004, 0.27 in 2003 and 0.26 in 2002. The effect of the loss reserve charge on the loss ratio was an increase of an additional 8.90 in 2002.

General Insurance Results

General Insurance operating income in 2004 showed positive results, even after accounting for catastrophe losses and the charge for asbestos and environmental exposures. Net investment income and the capital gains realized in 2004 rather than the capital losses realized in 2003 and 2002 also benefitted General Insurance results.

Like most AIG units, DBG benefited in 2004 from the flight to quality, a strong profit center focus and growing distribution channels. Overall, DBG s net premiums written increased in 2004 and 2003. Domestic property-casualty rates are generally satisfactory at this time, although in some classes of business, including property, D&O and energy, rates should be firmer. The underwriting loss in 2004 resulted from the fourth quarter charge attributable to the change in estimate for asbestos and environmental reserves and catastrophe losses. Lexington, the largest excess and surplus lines carrier and a major underwriter of property insurance, was also significantly affected by catastrophe losses.

Transatlantic s net premiums written and net premiums earned increased as a result of growth in its international business. However, Transatlantic s results were substantially affected by record catastrophes in the U.S. and around the world.

Net premiums written in personal lines operations for 2004 and 2003 include $359 million and $159 million, respectively, from the domestic insurance operations of GE that were acquired in August 2003. The increase in net premiums written apart from this acquisition resulted from increased marketing efforts as well as rate increases in several states.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

The underwriting profit in 2003 resulted from premium rate increases and growth in net premiums written and earned.

Net premiums written by Mortgage Guaranty operations increased 14.3 percent in 2004 over 2003. UGC achieved record premiums in 2004, excellent underwriting results that are substantially better than the overall mortgage guaranty insurance industry, and continued expansion of its international operations.

Foreign General Insurance had excellent results in 2004, achieving a combined ratio of 90.81 even after sustaining $232 million in catastrophe losses. Growth in net premiums written was due to premium rate increases as well as new business and new distribution channels. Every major region of the worldwide network contributed to this performance. The Far East region had good results despite several typhoon losses. In Japan, corporate and personal accident business expanded. Commercial lines in Europe continue to exhibit strong growth, as did personal lines operations in Brazil and Latin America. Additionally, AIG s joint venture in India has expanded its commercial lines leadership among the private sector companies.

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of General Insurance net premiums written.

	2004
Growth in original currency	13.8%
Foreign exchange effect	2.2
Growth as reported in U.S. dollars	16.0%

AIG s General Insurance results reflect the net effect on incurred losses from catastrophes of $1.05 billion, $83 million and $61 million in 2004, 2003 and 2002, respectively. The effect on losses caused by catastrophes can fluctuate widely from year to year, making comparisons of recurring type business more difficult. With respect to catastrophe losses, AIG believes that it has taken appropriate steps, such as careful exposure selection and obtaining reinsurance coverage, to reduce the effect of the magnitude of possible future losses. The occurrence of one or more catastrophic events of unanticipated frequency or severity, such as a terrorist attack, earthquake or hurricane, that causes insured losses, however, could have a material adverse effect on AIG s results of operations, liquidity or financial condition.

General Insurance net investment income grew in 2004 when compared to 2003. AIG is benefiting from strong cash flow as well as increased partnership income. In 2003, net investment income increased slightly when compared to 2002. As AIG believes that net premiums written will continue to increase in 2005, AIG expects that cash flow for investment will continue to be strong, resulting in growth in net investment income in 2005. See also the discussion under Liquidity herein and Note 8 of Notes to Consolidated Financial Statements.

Realized capital gains and losses resulted from the ongoing investment management of the General Insurance portfolios within the overall objectives of the General Insurance operations. The realized capital gains in 2004 reflect an improved economy and stronger corporate balance sheets with significantly fewer impairments. Realized capital losses in 2003 and 2002 were reflective of weakness in the equity markets in early 2003 and prior periods and impairment loss provisions for both equity and fixed income holdings in all three years. See the discussion on Valuation of Invested Assets herein.

The contribution of General Insurance operating income to AIG s consolidated income before income taxes, minority interest and cumulative effect of accounting changes was 21.4 percent in 2004, compared to 37.8 percent in 2003 and 11.8 percent in 2002. The decrease in contribution percentage in 2004 was largely the result of the effects of catastrophe losses and the fourth quarter charge for asbestos and environmental exposures, while the increase of 2003 over 2002 reflected the $2.1 billion loss reserve charge in 2002.

In 2002, AIG s General Insurance results reflect the net effect of the loss reserve charge of $2.1 billion with respect to accident years 1997 through 2001. Such charge was the result of AIG s annual year-end review of General Insurance loss reserves. On a gross basis, incurred losses included $2.8 billion attributable to the loss reserve charge.

Reinsurance

AIG is a major purchaser of reinsurance for its General Insurance operations. AIG insures risks globally, and its reinsurance programs must be coordinated in order to provide AIG the level of reinsurance protection that AIG desires. Reinsurance is an important risk management tool to manage transaction and insurance line risk retention at prudent levels set by management. AIG also purchases reinsurance to mitigate its catastrophic exposure. 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 because one or more catastrophe losses could negatively affect AIG s reinsurers and result in an inability of AIG to collect reinsurance recoverables. AIG s reinsurance department evaluates catastrophic events and assesses the probability of occurrence and magnitude of catastrophic events through the use of state-of-the-art industry recognized program models among other techniques. AIG supplements

these models through continually monitoring the risk exposure of AIG s worldwide General Insurance operations and adjusting such models accordingly. While reinsurance arrangements do not relieve AIG from its direct obligations to its insureds, an efficient and effective reinsurance program substantially limits AIG s exposure to potentially significant losses.

AIG s consolidated general reinsurance assets amounted to $18.22 billion at December 31, 2004 and resulted from AIG s reinsurance arrangements. Thus, a credit exposure existed at December 31, 2004 with respect to reinsurance recoverable to the extent that any reinsurer may not be able to reimburse AIG under the terms of these reinsurance arrangements. AIG manages its credit risk in its reinsurance relationships by transacting with reinsurers that it considers financially sound, and when necessary AIG holds substantial collateral in the form of funds, securities and/or irrevocable letters of credit. This collateral can be drawn on for amounts that remain unpaid beyond specified time periods on an individual reinsurer basis. At December 31, 2004, approximately 43 percent of the general reinsurance assets were from unauthorized reinsurers. In order to obtain statutory recognition, the majority of these balances were collateralized. The remaining 57 percent of the general reinsurance assets were from authorized reinsurers. The terms authorized and unauthorized pertain to regulatory categories, not creditworthiness. Approximately 90 percent of the balances with respect to authorized reinsurers are from reinsurers rated A (excellent) or better, as rated by A.M. Best, or A (strong) or better, as rated by Standard & Poor s. These ratings are measures of financial strength.

AIG maintains a reserve for estimated unrecoverable reinsurance, but it has been largely successful in its previous recovery efforts. At December 31, 2004, AIG had allowances for unrecoverable reinsurance approximating $800 million. At that date, AIG had no significant reinsurance recoverables due from any individual reinsurer that was financially troubled (e.g., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction).

AIG s Reinsurance Security Department conducts ongoing detailed assessments of the reinsurance markets and current and potential reinsurers, both foreign and domestic. Such assessments include, but are not limited to, identifying if a reinsurer is appropriately licensed and has sufficient financial capacity, and evaluating the local economic environment in which a foreign reinsurer operates. This department also reviews the nature of the risks ceded and the requirements for credit risk mitigants. For example, in AIG s treaty reinsurance contracts, AIG includes provisions that frequently require a reinsurer to post collateral when a referenced event occurs. Furthermore, AIG limits its unsecured exposure to reinsurers through the use of credit triggers, which include, but are not limited to, insurer financial strength rating downgrades, policyholder surplus declines at or below a certain predetermined level or a certain predetermined level of a reinsurance recoverable being reached. In addition, AIG s Credit Risk Committee reviews the credit limits for and concentrations with any one reinsurer.

AIG enters into intercompany reinsurance transactions, including through AIRCO, for its General Insurance and Life Insurance operations. AIG enters into these transactions as a sound and prudent business practice in order to maintain underwriting control and spread insurance risk among AIG s various legal entities. All material intercompany transactions have been eliminated in consolidation. AIG generally obtains letters of credit in order to obtain statutory recognition of these intercompany reinsurance transactions. At December 31, 2004, approximately $3.3 billion of letters of credit were outstanding to cover intercompany reinsurance transactions with AIRCO or other General Insurance subsidiaries.

At December 31, 2004, the consolidated general reinsurance assets of $18.22 billion include reinsurance recoverables for paid losses and loss expenses of $474 million and $14.62 billion with respect to the ceded reserve for losses and loss expenses, including ceded losses incurred but not reported (IBNR) (ceded reserves). The ceded reserves represent the accumulation of estimates of ultimate ceded losses including provisions for ceded IBNR and loss expenses. The methods used to determine such estimates and to establish the resulting ceded reserves are continually reviewed and updated by management. Any adjustments thereto are reflected in income currently. It is AIG s belief that the ceded reserves at December 31, 2004 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.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Reserve for Losses and Loss Expenses

The table below classifies as of December 31, 2004 the components of the General Insurance reserve for losses and loss expenses (loss reserves) with respect to major lines of business on a statutory basis*:

(in millions)	(Restated)
Other liability occurrence	$ 16,074
Other liability claims made	10,036
Workers compensation	9,181
Auto liability	5,548
Property	4,098
International	3,490
Reinsurance	2,415
Medical malpractice	2,145
Aircraft	1,663
Products liability	1,384
Commercial multiple peril	1,142
Accident and health	1,090
Fidelity/ surety	960
Other	2,652
Total	$ 61,878

* *Presented pursuant to statutory reporting requirements as prescribed by the National Association of Insurance Commissioners.*

These loss reserves represent the accumulation of estimates of ultimate losses, including IBNR and loss expenses on a statutory accounting basis.

At December 31, 2004, General Insurance net loss reserves increased $11.03 billion from the prior year end to $47.3 billion. The net loss reserves represent loss reserves reduced by reinsurance recoverables, net of an allowance for unrecoverable reinsurance and the discount for future investment income. The table below classifies the components of the General Insurance net loss reserves by business unit as of December 31, 2004.

(in millions)	(Restated)
DBG*(a)*	$ 32,356
Personal Lines*(b)*	2,310
Transatlantic	4,981
Mortgage Guaranty	352
Foreign General*(c)*	7,255
Total Net Loss Reserve	$ 47,254

(a) DBG loss reserves include approximately $3.26 billion ($3.91 billion before discount) related to business written by DBG but ceded to AIRCO and reported in AIRCO s statutory filings. DBG loss reserves also include approximately $3.02 billion and $263 million related to business ceded to Union Excess and Richmond, respectively, and are now included in AIG s results as a result of insufficient risk transfer

and the consolidation of these entities.

(b) *Personal Lines loss reserves include $668 million related to business ceded to DBG and reported in DBG s statutory filings.*

(c) *Foreign General loss reserves include approximately $1.77 billion related to business reported in DBG s statutory filings. Foreign General loss reserves also include approximately $218 million and $19 million related to business ceded to Union Excess and Richmond, respectively, but now included in AIG s results as a result of insufficient risk transfer and the consolidation of these entities.*

The DBG net loss reserve of $32.36 billion is comprised principally of the business of AIG subsidiaries participating in the American Home/ National Union pool (11 companies) and the surplus lines pool (Lexington, Starr Excess Liability Insurance Company and Landmark Insurance Company).

Beginning in 1998, DBG ceded a quota share percentage of its other liability occurrence and products liability occurrence business to AIRCO. The quota share percentage ceded was 40 percent in 1998, 65 percent in 1999, 75 percent in 2000 and 2001, 50 percent in 2002 and 2003 and 40 percent in 2004 and covered all business written in these years for these lines by participants in the American Home/National Union pool. In 1998 the cession reflected only the other liability occurrence business, but in 1999 and subsequent years included products liability occurrence. AIRCO s loss reserves relating to these quota share cessions from DBG are recorded on a discounted basis. As of year-end 2004, AIRCO carried a discount of approximately $651 million applicable to the $3.91 billion in undiscounted reserves it assumed from the American Home/National Union pool via this quota share cession. AIRCO also carries approximately $368 million in net loss reserves relating to Foreign General insurance business. These reserves are carried on an undiscounted basis.

Beginning in 1997, the Personal Lines division ceded a percentage of all business written by the companies participating in the personal lines pool to the American Home/National Union pool. As noted above, the total reserves carried by participants in the American Home/National Union pool relating to this cession amounted to $668 million as of year-end 2004.

The companies participating in the American Home/ National Union pool have maintained a participation in the business written by AIU for decades. As of year-end 2004, these AIU reserves carried by participants in the American Home/ National Union pool amounted to approximately $1.77 billion. The remaining Foreign General reserves are carried by AIUO, AIRCO, and other smaller AIG subsidiaries domiciled outside the United States. Statutory filings in the U.S. by AIG companies reflect all the business written by U.S. domiciled entities only, and therefore exclude business written by AIUO, AIRCO, and all other internationally domiciled subsidiaries. The total reserves carried at year-end 2004 by AIUO and AIRCO were approximately $3.21 billion and $3.65 billion, respectively. AIRCO s $3.65 billion in total general insurance reserves consist of approximately $3.26 billion from business assumed from the American Home/National Union pool and an additional $368 million relating to Foreign General Insurance business.

At December 31, 2004, AIG s overall general insurance net loss reserves reflects a loss reserve discount of $1.55 billion, including tabular and non-tabular calculations. The tabular workers compensation discount is calculated using a 3.5 percent interest rate and the 1979-81 Decennial Mortality Table. The non-tabular workers compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the yield of U.S. Treasury securities ranging from one to twenty years and the company s own payout pattern, with the future expected payment for each year using the interest rate associated with the corresponding Treasury security yield for that time period. The discount is comprised of the following: $399 million tabular discount for workers compensation in DBG; $503 million non-tabular discount for workers compensation in DBG; and, $651 million non-tabular discount for other liability occurrence and products liability occurrence in AIRCO. The total undiscounted workers compensation loss reserve carried by DBG is approximately $6.4 billion as of year-end 2004. The other liability occurrence and products liability occurrence business in AIRCO that is assumed from DBG is discounted using a 5.5 percent interest rate and the DBG payout pattern for this business. The undiscounted reserves assumed by AIRCO from DBG totaled approximately $3.91 billion at December 31, 2004.

The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated by management. 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 December 31, 2004. While AIG annually reviews the adequacy of established loss reserves, there can be no assurance that AIG s ultimate loss reserves will not adversely develop and materially exceed AIG s loss reserves as of December 31, 2004. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG s consolidated financial position, although it could have a material adverse effect on AIG s consolidated results of operations for an individual reporting period.

In a very broad sense, the General Insurance loss reserves can be categorized into two distinct groups. One group is long-tail casualty lines of business which include excess and umbrella liability, D&O, professional liability, medical malpractice, workers compensation, general liability, products liability, and related classes. The other group is short-tail lines of business consisting principally of property lines, personal lines and certain classes of casualty lines.

For operations writing short-tail coverages, such as property coverages, the process of recording quarterly loss reserve changes is geared toward maintaining an appropriate reserve level for the outstanding exposure, rather than determining an expected loss ratio for current business. For example, the IBNR reserve required for a class of property business might be expected to approximate 20 percent of the latest year s earned premiums, and this level of reserve would be maintained regardless of the loss ratio emerging in the current quarter. The 20 percent factor is adjusted to reflect changes in rate levels, loss reporting patterns, known exposures to large unreported losses, or other factors affecting the particular class of business.

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. Experience in the more recent accident years of long-tail casualty lines shows limited statistical credibility in reported net losses because a relatively low proportion of net losses would be reported claims and expenses and an even smaller proportion would be net losses paid. Therefore, IBNR would constitute a relatively high proportion of net losses.

AIG s carried net long-tail loss reserves are tested using loss trend factors that AIG considers most appropriate for each class of business. A variety of actuarial methods and assumptions is normally employed to estimate net losses for long-tail casualty lines. These methods ordinarily involve the use of loss trend factors intended to reflect the estimated annual growth in loss costs from one accident year to the next. For the majority of long-tail casualty lines, net loss trend factors approximated five percent. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms; current and future estimates of monetary inflation and social inflation and increases in litigation and awards. These factors are periodically reviewed and subsequently adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience. Thus, many factors are implicitly considered in estimating the year to year growth in loss costs recognized.

A number of actuarial assumptions are made in the review of reserves for each line of business. For longer tail lines

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

of business, actuarial assumptions generally are made with respect to the following:

Loss trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratio for prior accident years.

Expected loss ratios for the latest accident year (*i.e.*, accident year 2004 for the year end 2004 loss reserve analysis) and, in some cases, for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend (see above) and the effect of rate changes and other quantifiable factors. For low-frequency, high-severity classes such as excess casualty and D&O, expected loss ratios generally are utilized for at least the three most recent accident years.

Loss development factors which are used to project the reported losses for each accident year to an ultimate basis.

AIG records quarterly changes in loss reserves for each of its many General Insurance profit centers. The overall change in AIG s loss reserves is based on the sum of these profit center level changes. For most profit centers which write longer tail classes of casualty coverage, the process of recording quarterly loss reserve changes involves determining the estimated current loss ratio for each class of coverage. This loss ratio is multiplied by the current quarter s net earned premium for that class of coverage to determine the quarter s total estimated net incurred loss and loss expense. The change in loss reserves for the quarter for each class is thus the difference between the net incurred loss and loss expense, estimated as described above, and the net paid losses and loss expenses in the quarter.

The process of determining the current loss ratio for each class or business segment begins in the profit centers in the latter part of the previous year. The loss ratios determined for each profit center are based on a variety of factors. These include, but are not limited to, the following considerations: prior accident year and policy year loss ratios; actual and anticipated rate changes; actual and anticipated changes in coverage, reinsurance, or mix of business; actual and anticipated changes in external factors affecting results, such as trends in loss costs or in the legal and claims environment. Each profit center s loss ratio for the following year is subject to review by the profit center s management, by actuarial and accounting staffs, and ultimately by senior management. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios based thereon remain appropriate. This process includes a review of the actual claims experience in the quarter, actual rate changes achieved, actual changes in coverage, reinsurance or mix of business, and changes in certain other factors that may affect the loss ratio. When this review suggests that the initially determined loss ratio is no longer appropriate, the loss ratio for current business would be changed to reflect the revised assumptions.

A comprehensive annual loss reserve review is conducted in the fourth quarter of each year for each AIG General Insurance subsidiary. These reviews are conducted in full detail for each class or line of business for each subsidiary, and thus consist of literally hundreds of individual analyses. The purpose of these reviews is to confirm the reasonableness of the reserves carried by each of the individual subsidiaries, and thereby of AIG s overall carried reserves. The reserve analysis for each business class is performed by the actuarial personnel who are most familiar with that class of business. In completing these detailed actuarial reserve analyses, the actuaries are required to make numerous assumptions, including for example the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial method(s) to employ for each business class. Additionally, they must determine the appropriate segmentation of data or segments from which the adequacy of the reserves can be most accurately tested. In the course of these detailed reserve reviews for each business segment, a point estimate of the loss reserve is generally determined. The sum of these point estimates for each of the individual business classes for each subsidiary provides an overall actuarial point estimate of the loss reserve for that subsidiary. The overall actuarial point estimate is compared to the subsidiary s carried loss reserve. If the carried reserve can be supported by actuarial methods and assumptions which are also believed to be reasonable, then the carried reserve would generally be considered reasonable and no adjustment would be considered. The ultimate process by which the actual carried reserves are determined considers not only the actuarial point estimate but a myriad of other factors. Other crucial internal and external factors considered include a qualitative assessment of inflation and other economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environments, underlying policy pricing, terms and conditions, and claims handling. Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

With respect to the 2004 year-end actuarial loss reserve analysis for DBG, the actuaries continued to utilize the modified assumptions which gave additional weight to actual loss development from the more recent years, as identified during the 2002 and 2003 analysis, with appropriate adjustments to account for the additional year of loss experience which emerged in 2004. Although the actuaries continued to use actuarial assumptions that rely on expected loss ratios based on the

results of prior accident years, the expected loss ratio assumptions used continue to give far greater weight to the more recent accident year experience than was the case in the prior year-end assumptions. For example, for the excess casualty lead umbrella class of business, 100 percent weight was given to the experience of accident years 1998-2001, with no weight given to the more favorable experience of accident years prior to 1998.

AIG s annual loss reserve review does not calculate a range of loss reserve estimates. Because a large portion of the loss reserves from AIG s General Insurance business relates to long-tail casualty lines driven by severity rather than frequency of claims, such as excess casualty and D&O, developing a range around loss reserve estimates would not be meaningful. An estimate is calculated which AIG s actuaries believe provides a reasonable estimate of the required reserve. This amount is then evaluated against actual carried reserves.

There is potential for significant variation in the development of loss reserves, particularly for long-tail casualty classes of business such as excess casualty, when actual costs differ from the assumptions used to test the reserves. Such assumptions include those made for loss trend factors and loss development factors, as described earlier. Set forth below is a sensitivity analysis demonstrating the estimated effect on the loss reserve position of alternative loss trend or loss development factor assumptions as compared to those actually used to test the carried reserves.

For the excess casualty class of business the assumed loss cost trend was five percent. Thus, in establishing the expected loss ratios for accident years 2002 through 2004, the loss costs from accident years 1998 through 2001 were trended by this five percent factor per annum. A five percent change in the assumed loss cost trend from each accident year to the next would cause approximately a $600 million change (either positively or negatively) to the net loss and loss expense reserve for this business. For the D&O and related management liability classes of business the assumed loss cost trend was four percent. Thus, in establishing the expected loss ratios for accident years 2002 through 2004, the loss costs from accident years 1997 through 2001 were trended by this four percent factor per annum. A five percent change in this assumed loss cost trend would cause approximately a $500 million change (either positively or negatively) to the net loss and loss expense reserve for such business. For healthcare liability business, including hospitals and other healthcare exposures, a five percent change in the assumed loss cost trend would cause approximately a $150 million change (either positively or negatively) to the loss and loss expense reserve for this business. Actual loss cost trends in the early 1990 s were negative for these classes, whereas in the late 1990 s loss costs trends ran well into the double digits for each of these three classes. The sharp increase in loss costs in the late 1990 s was thus much greater than the five percent changes cited above, and caused significant increases in the overall loss reserve needs for these classes. While changes in the loss cost trend assumptions can have a significant effect on the reserve needs for other smaller classes of liability business, the potential effect of these changes on AIG s overall carried reserves would be much less than for the classes noted above.

For the excess casualty class, if future loss development factors differed by five percent from those utilized in the year-end 2004 loss reserve review, there would be approximately a $450 million change (either positively or negatively) to the overall AIG loss reserve position. The comparable effect on the D&O and related management liability classes would be approximately $200 million (either positive or negative) if future loss development factors differed by five percent from those utilized in the year-end 2004 loss reserve review. For healthcare liability classes, the effect would be approximately $125 million (either positive or negative). For workers compensation reserves, the effect of a five percent deviation from the loss development factors utilized in the year-end 2004 reserve reviews would be approximately $750 million (either positive or negative). Because loss development factors for this class have shown less volatility than higher severity classes such as excess casualty, however, actual changes in loss development factors are expected to be less than five percent. There is some degree of volatility in loss development patterns for other longer tail liability classes as well. However, the potential effect on AIG s reserves would be much less than for the classes cited above.

The calculations of the effect of the five percent change in loss development factors are made by selecting the stage of accident year development where it is believed reasonable for such a deviation to occur. For example, for workers compensation, the $750 million amount is calculated by assuming that each of the most recent eight accident years develop five percent higher than estimated by the current loss development factors utilized in the reserve study, *i.e.* the factor 1.05 is multiplied by the incurred losses (including IBNR and loss expenses) for these accident years.

AIG management believes that using a five percent change in the assumptions for loss cost trends and loss development factors provides a reasonable benchmark for a sensitivity analysis of the reserves of AIG s most significant lines of general insurance business. For excess casualty business, both the loss cost trend and the loss development factor assumptions are critical. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development pat-

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terns will be the same as in the past. Moreover, as excess casualty is a long-tail class of business, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for the reserves with respect to a number of accident years to be significantly affected by changes in the loss cost trends or loss development factors that were initially relied upon in setting the reserves. These changes in loss trends or loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic phenomena affecting claims. For example, during the lengthy periods during which losses develop for excess casualty, actual changes in loss costs from one accident year to the next have ranged from negative values to double-digit amounts. Thus, there is the potential for significant volatility in loss costs for excess casualty and, although five percent is considered a reasonable benchmark for sensitivity analysis for this business, there is the potential for variations far greater than this amount (either positive or negative). Likewise, in the judgment of AIG s actuaries, five percent is considered an appropriate benchmark for sensitivity analysis with respect to the loss development factor assumptions used to test the reserves. It should be noted that the loss cost trend factor for excess casualty was reduced to five percent in the year-end 2004 loss reserve review compared to the 7.5 percent loss trend factor used in the 2003 review for excess casualty. This reduction was made by AIG s actuaries in response to a significant favorable loss trend that had emerged from accident year 2000 to 2001. This favorable trend appears to be continuing in accident years 2002 and 2003, although these accident years are still immature.

For D&O and related management liability classes of business, the loss cost trend assumption is critical. The loss development factor assumption is important but less critical than for excess casualty. As this coverage is written on a claims-made basis, claims for a given accident year are all reported within that year. Actual changes in loss costs from one accident year to the next in the 1990s ranged from double digit negative values for several accident years in the early 1990s to nearly 50 percent per year for the period from accident year 1996 to accident year 1999. Thus, there is the potential for extreme volatility in loss costs for this business and, although five percent is considered a reasonable benchmark for sensitivity analysis, there is the potential for variations far greater than this amount (either positive or negative). Five percent is also considered an appropriate benchmark for sensitivity analysis with respect to the loss development factor assumptions used to test the reserves for these classes. However, as noted above, the effect of such a deviation is less than that of a similar deviation in loss cost trends. It should be noted that the loss cost trend factor for D&O and related management liability classes was reduced to four percent in the year end 2004 loss reserve reviews compared to six percent in the 2003 review. This reduction was made by AIG s actuaries in response to a relative stabilization in loss costs from accident year 1999 to 2001 following the period of sharp increases in loss costs through 1999. The stabilization in loss costs appears to be continuing in accident years 2002 and 2003, although these accident years are still immature.

For healthcare liability classes, both the loss cost trend and the loss development factor assumptions are critical. The nature of the potential volatility would be analogous to that described above for the excess casualty business. However, AIG s volume of business in the healthcare classes is much smaller than for excess casualty, hence the potential effect on AIG s overall reserves is smaller for these classes than for excess casualty. AIG s healthcare liability business includes both primary and excess exposures.

For workers compensation, the loss development factor assumptions are important. Generally, AIG s actual historical workers compensation loss development would be expected to provide a reasonably accurate predictor of future loss development. A five percent sensitivity indicator for workers compensation would thus be considered to be toward the high end of potential deviations for this class of business. AIG s workers compensation reserves include a small portion relating to excess workers compensation coverage. The analysis applicable to excess casualty would apply to these reserves. However, the volume of such business is de minimis compared to the volume of excess casualty. The loss cost trend assumption for workers compensation is not believed to be material with respect to AIG s loss reserves other than for that portion representing excess workers compensation. This is primarily because AIG s actuaries are generally able to use loss development projections for all but the most recent accident year s reserves, so there is limited need to rely on loss cost trend assumptions for workers compensation business.

For casualty business other than the classes noted above, there is generally some potential for deviation in both the loss cost trend and loss development factor selections. However, the effect of such deviations would not be material when compared to the effect cited above for excess casualty and D&O.

The comprehensive annual loss reserve review process results in an accumulation of point estimates for AIG s General Insurance business. The loss reserve carried at year-end 2004 for AIG s General Insurance business was approximately equal to the aggregate reserve indicated by the actuarial point estimates. This represents a relative improvement of approximately two percent from AIG s position as of December 31,

2003. This comparison excludes the reserves relating to asbestos and environmental exposures, which are calculated using different methodologies, as described below.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

AIG continues to receive claims asserting injuries from toxic waste, hazardous substances, and other environmental pollutants and alleged damages to cover the cleanup costs of hazardous waste dump sites, referred to collectively as environmental claims, and indemnity claims asserting injuries from asbestos.

The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution related damage and an absolute asbestos exclusion was also implemented. However, AIG currently underwrites environmental impairment liability insurance on a claims-made basis and has excluded such claims from the analysis 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.

Estimation of asbestos and environmental claims loss reserves is a subjective process and reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors.

Significant factors which affect the trends that influence the asbestos and environmental claims estimation process are the inconsistent court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving, and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government s refusal to release parties.

Due to this uncertainty, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims. Such future development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage issues. If the asbestos and environmental reserves develop deficiently, such deficiency would have an adverse effect on AIG s future results of operations. AIG does not discount asbestos and environmental reserves.

With respect to known asbestos and environmental claims, AIG established over a decade ago specialized toxic tort and environmental claims units, which investigate and adjust all such asbestos and environmental claims. These units evaluate these asbestos and environmental claims utilizing a claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, AIG generally evaluates exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques have to be supplemented by subjective considerations including management judgment. Each claim is reviewed at least semi-annually utilizing the aforementioned approach and adjusted as necessary to reflect the current information.

In both the specialized and dedicated asbestos and environmental claims units, AIG actively manages and pursues early settlement with respect to these claims in an attempt to mitigate its exposure to the unpredictable development of these claims. AIG attempts to mitigate its known long-tail environmental exposures by utilizing a combination of proactive claim-handling techniques including policy buybacks,

complete environmental releases, compromise settlements, and, where indicated, litigation.

With respect to asbestos claims handling, AIG s specialized claims staff operates to mitigate losses through proactive handling, supervision and resolution of asbestos cases. Thus, while AIG has resolved all claims with respect to miners and major manufacturers (Tier One), its claims staff continues to operate under the same proactive philosophy to resolve claims involving accounts with products containing asbestos (Tier Two), products containing small amounts of asbestos, companies in the distribution process, and parties with re-

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mote, ill defined involvement in asbestos (Tiers Three and Four). Through its commitment to appropriate staffing, training, and management oversight of asbestos cases, AIG mitigates to the extent possible its exposure to these claims.

In order to evaluate the overall reasonableness of the asbestos and environmental reserves established using the claim-by-claim approach as described above, AIG uses two methods, the market share method and the frequency/ severity or report year method.

The market share method produces indicated asbestos and environmental reserve needs by applying the appropriate AIG market share to estimated potential industry ultimate loss and loss expenses based on the latest estimates from A.M. Best and Tillinghast. The market share method is a series of tests. Six estimates of potential industry ultimate losses for asbestos and environmental claims are tested. Additionally, a second series of tests are performed, using estimated industry unpaid losses, instead of industry ultimate losses. The market share tests are also performed using estimates of AIG s market share. The reason AIG s market share is an estimate is that there are assumptions as to which years and classes of business the asbestos and environmental exposure applies. For example, commercial multiple peril business is included in the market share calculation in some, but not all, of the scenarios.

AIG s estimate of the carried net asbestos and environmental reserves were approximately $50 million greater than the mean indication of the outcomes of market share testing. However, the market share method does not give weight to AIG s actual asbestos and environmental loss experience.

The frequency/severity or report year approach, is also a series of tests which are performed separately for asbestos and for environmental exposures. For asbestos, these tests project the expected losses to be reported over the next twenty years, *i.e.* from 2005 through 2024, based on the actual losses reported through 2004 and the expected future loss emergence for these claims. Three scenarios are tested, with a series of assumptions ranging from more optimistic to more conservative. In the first scenario, all carried asbestos case reserves, as determined above using the claim-by-claim approach, are assumed to be within ten percent of their ultimate settlement value.

The second scenario relies on an actuarial projection of report year developments for asbestos claims reported from 1993 to the present to estimate case reserve adequacy as of year-end 2004. The third scenario also relies on an actuarial projection of report year claims for asbestos, but reflects claims reported from 1989 to the present to estimate case reserve adequacy as of year-end 2004. As of year-end 2004, the results of the second and third scenarios varied significantly. In the second scenario, case reserves were indicated to be at slightly less than 60 percent of the ultimate settlement value at year-end 2004, whereas in the third scenario they were indicated to be at less than 25 percent of ultimate settlement value.

Based on the results of the prior report years for each of the three scenarios described above, the report year approach then projects forward to the year 2024 the expected future report year losses, based on AIG s estimate of reasonable loss trend assumptions.

These calculations are performed on losses gross of reinsurance. The IBNR (including a provision for development of reported claims) on a net basis is based on applying a factor reflecting the expected ratio of net losses to gross losses for future loss emergence.

For environmental claims, an analogous series of frequency/severity tests are produced. In general, the case reserve adequacy assumptions are narrower, as case reserve adequacy is indicated within approximately 25 percent of adequacy in all scenarios tested. Environmental claims from future report years (*i.e.* IBNR) are projected out ten years, *i.e.* through the year 2014.

As of year-end 2004, the range of outcomes from the scenarios tested for environmental ranged from $20 million below AIG s carried reserve to approximately $200 million greater than AIG s carried reserve. The range of outcomes for asbestos was greater. The indication from the first scenario, as described above, was approximately $140 million below AIG s carried reserve. The indication from the second scenario was approximately $10 million below AIG s carried reserves. The indication from the third scenario was approximately $650 million greater than AIG s carried reserve.

At year-end 2004, AIG considered a number of factors and recent experience to determine the appropriate reserve that should be carried for these claims, including the following:

1. *Actual calendar experience for past ten years, five years, three years, and one year.* AIG has experienced consistent adverse development on its carried asbestos and environmental reserves over the years. The net carried reserves from ten years ago have run off $1.45 billion deficient; from five years ago $430 million deficient; from three years ago $350 million deficient; and from one year ago $150 million deficient. Thus the reserves have consistently produced adverse development per year, with no evidence of recent improvement. These figures are prior to the year-end 2004 reserve increase.

On a gross of reinsurance basis, the adverse developments have been analogous, with approximately $450 million in the latest year and $4.8 billion over the past ten years.

2. *Input from claims officers on latest year events.* DBG s claims officers have observed an increasing trend toward adverse claims experience in the layers underlying its excess attachment points for a number of Tier Two claims, increasing the probability of further adverse loss developments going forward. They also noted the emergence of several asbestos non-products cases recently, raising a concern that asbestos non-products cases could become a more serious problem in the future.

3. *Deterioration in Report Year claims experience.* As noted above, the Scenario Two and Scenario Three indications for case reserve adequacy in AIG s 2004 year-end actuarial report indicated an increasing deficiency in carried case reserves for asbestos. This was the result of continued adverse development on prior year case reserves and suggests future loss development will be at higher levels than previously indicated. As a result, the Scenario Three indicated reserve deficiency increased from approximately $480 million in the 2003 year-end reserve review to a deficiency of approximately $650 million in the year-end 2004 review. Furthermore, the year-end 2004 review utilized data evaluated as of June 30, 2004. An update to this data was recently produced (for all large claims) with claims evaluated as of March 31, 2005, *i.e.*, an additional nine months of data beyond the year-end 2004 reserve study. This update showed that report year losses in the nine months from June 2004 to March 2005 have produced additional adverse loss development. In fact, more loss development was observed during these nine months than for the twelve months from the June 2003 through June 2004 period. Thus, both the latest year s data used in the year-end 2004 actuarial study and the nine months of additional data subsequent to that study indicate the experience is deteriorating beyond what was expected at year-end 2003.

4. *Survival Ratios.* AIG s year-end 2004 survival ratio for asbestos was 5.7 and 5.2 on a gross and a net basis, respectively, prior to the year-end 2004 reserve increase. AIG s year-end 2004 survival ratio for environmental was 4.8 and 3.8 on a gross and a net basis, respectively, prior to the year-end 2004 reserve increase. These survival ratios indicate AIG s carried reserves are sufficient to fund four to five years of payments for these claims, assuming payment levels remain stable. Based on the latest two years of actual paid losses, AIG does not expect its losses to decline as quickly as these ratios imply.

5. *Industry experience.* The industry has experienced a significant wave of adverse development for asbestos since 2001, with little, if any, signs of recent improvement. Furthermore, the litigation environment has become increasingly adverse.

6. *Reinsurance Recoverable.* Although AIG has been successful in collecting the vast majority of its reinsurance on asbestos and environmental claims, the greater the future losses and the longer the exposure persists, the greater the likelihood of increased problems in collecting reinsurance. Thus, the continued adverse developments and lack of any signs that loss experience is beginning to diminish increases the risk of uncollectible reinsurance.

After considering all of these factors, particularly its recent experience, AIG determined that its carried reserve for asbestos and environmental claims would be best estimated by scenario three described above. This resulted in a $650 million increase in net asbestos reserves, and a $200 million increase in net environmental reserves. The corresponding increases in gross reserves were $1.2 billion for asbestos and $250 million for environmental reserves.

Significant uncertainty remains as to AIG s ultimate liability relating to asbestos and environmental claims. This uncertainty is due to several factors including:

- The long latency period between asbestos exposure and disease manifestation and the resulting potential for involvement of multiple policy periods for individual claims;
- The increase in the volume of claims by currently unimpaired plaintiffs;
- Claims filed under the non-aggregate premises or operations section of general liability policies;

The number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;

Diverging legal interpretations;

With respect to environmental claims, the difficulty in estimating the allocation of remediation cost among various parties; and

The possibility of federal legislation that would address the asbestos and environmental issue.

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A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined at December 31, 2004, 2003 and 2002 follows:

	2004		2003		2002	
(in millions)	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Reserve for losses and loss expenses at beginning of year	$ 1,235	$ 386	$ 1,304	$ 400	$ 1,114	$ 312
Losses and loss expenses incurred*	1,595*(a)*	772*(a)*	175	43	395	168
Losses and loss expenses paid*	(271)	(98)	(244)	(57)	(205)	(80)
Reserve for losses and loss expenses at end of year	$ 2,559	$ 1,060	$ 1,235	$ 386	$ 1,304	$ 400
Environmental:						
Reserve for losses and loss expenses at beginning of year	$ 789	$ 283	$ 832	$ 296	$ 1,115	$ 407
Losses and loss expenses incurred*	314*(b)*	234*(b)*	133	52	(140)	(44)
Losses and loss expenses paid*	(129)	(66)	(176)	(65)	(143)	(67)
Reserve for losses and loss expenses at end of year	$ 974	$ 451	$ 789	$ 283	$ 832	$ 296
Combined:						
Reserve for losses and loss expenses at beginning of year	$ 2,024	$ 669	$ 2,136	$ 696	$ 2,229	$ 719
Losses and loss expenses incurred*	1,909*(c)*	1,006*(c)*	308	95	255	124
Losses and loss expenses paid*	(400)	(164)	(420)	(122)	(348)	(147)
Reserve for losses and loss expenses at end of year	$ 3,533	$ 1,511	$ 2,024	$ 669	$ 2,136	$ 696

* *All amounts pertain to policies underwritten in prior years.*

(a) *Includes increases of $1.2 billion and $650 million for the fourth quarter relating to gross and net losses and loss expenses incurred, respectively, attributable to the change in estimate.*

(b) *Includes increases of $250 million and $200 million for the fourth quarter relating to gross and net losses and loss expenses incurred, respectively, attributable to the change in estimate.*

(c) *Includes increases of $1.45 billion and $850 million for the fourth quarter relating to gross and net losses incurred, respectively, attributable to the change in estimate.*

The gross and net IBNR included in the reserve for losses and loss expenses, relating to asbestos and environmental claims separately and combined, at December 31, 2004, 2003 and 2002, including the fourth quarter 2004 charge, were estimated as follows:

	2004		2003		2002	
(in millions)	Gross	Net	Gross	Net	Gross	Net
Asbestos	$ 2,033	$ 876	$ 695	$ 200	$ 709	$ 211
Environmental	606	284	347	80	313	72
Combined	$ 2,639	$ 1,160	$ 1,042	$ 280	$ 1,022	$ 283

A summary of asbestos and environmental claims count activity for the years ended December 31, 2004, 2003 and 2002 was as follows:

	2004			2003			2002		
	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	7,474	8,852	16,326	7,085	8,995	16,080	6,672	9,364	16,036
Claims during year:									
Opened	909	2,592	3,501	669	2,106	2,775	959	1,657	2,616
Settled	(100)	(279)	(379)	(86)	(244)	(330)	(154)	(546)	(700)
Dismissed or otherwise resolved	(708)	(2,949)	(3,657)	(194)	(2,005)	(2,199)	(392)	(1,480)	(1,872)
Claims at end of year	7,575	8,216	15,791	7,474	8,852	16,326	7,085	8,995	16,080

The table below presents AIG s survival ratios for asbestos and environmental claims for year end 2004, 2003 and 2002. The survival ratio is derived by dividing the year end carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid off using recent year average payments. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resultant survival ratio. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

AIG s survival ratios for asbestos and environmental claims, separately and combined were based upon a three-year average payment. These ratios for the years ended December 31, 2004, 2003 and 2002 were as follows:

	Gross	Net
2004		
Survival ratios:		
Asbestos	10.7	13.5
Environmental	6.5	6.8
Combined	9.1	10.5
2003		
Survival ratios:		
Asbestos	4.7	4.5
Environmental	4.7	4.1
Combined	4.7	4.3
2002		
Survival ratios:		
Asbestos	4.1	4.9
Environmental	5.4	5.3
Combined	4.5	5.1

Life Insurance & Retirement Services Operations

AIG s Life Insurance & Retirement Services subsidiaries offer a wide range of insurance and retirement savings products both domestically and abroad. Insurance-oriented products consist of individual and group life, payout annuities, endowment and accident and health policies. Retirement savings products consist generally of fixed and variable annuities. See also Note 3 of Notes to Consolidated Financial Statements.

Domestically, AIG s Life Insurance & Retirement Services operations offer a broad range of protection products, including life insurance, group life and health products, including disability income products and payout annuities, which include single premium immediate annuities, structured settlements and terminal funding annuities. Home service operations include an array of life insurance, accident and health, and annuity products sold through career agents. In addition, home service includes a small block of run-off property and casualty coverage. Retirement services include group retirement products, individual fixed and variable annuities sold through banks, broker dealers and exclusive sales representatives, and annuity runoff operations which include previously-acquired closed blocks and other fixed and variable annuities largely sold through distribution relationships that have been discontinued.

Overseas, AIG s Life Insurance & Retirement Services operations include insurance and investment-oriented products such as whole and term life investment linked, universal life and endowments, personal accident and health products, group products including pension, life and health, and fixed and variable annuities.

Life Insurance & Retirement Services operations presented on a major product basis for 2004, 2003 and 2002 were as follows:

(in millions)	2004 **(Restated)**	2003*(a)* (Restated)	2002*(a)* (Restated)
GAAP Premiums:			

Domestic Life:			
Life insurance	$ 1,888	$ 1,751	$ 1,611
Home service	812	834	854
Group life/health	1,128	1,046	967
Payout annuities*(b)*	1,484	1,272	1,044
Total	5,312	4,903	4,476
Domestic Retirement Services:			
Group retirement products	313	250	243
Individual fixed annuities	59	53	35
Individual variable annuities	407	331	333
Individual fixed annuities runoff*(c)*	80	86	93
Total	859	720	704
Total Domestic	6,171	5,623	5,180
Foreign Life:			
Life insurance	14,938	13,204	11,708
Personal accident & health	4,301	3,126	2,491
Group products*(d)*	2,215	1,267	1,094
Total	21,454	17,597	15,293
Foreign Retirement Services:			
Individual fixed annuities	395	255	216
Individual variable annuities	68	21	5
Total	463	276	221
Total Foreign	21,917	17,873	15,514
Total GAAP Premiums	$ 28,088	$ 23,496	$ 20,694
Net investment income:			
Domestic Life:			
Life insurance	$ 1,287	$ 1,179	$ 958
Home service	608	616	589
Group life/health	123	121	108
Payout annuities	801	699	615
Total	2,819	2,615	2,270
Domestic Retirement Services:			
Group retirement products	2,201	2,055	1,890
Individual fixed annuities	3,100	2,567	2,001
Individual variable annuities	239	239	174
Individual fixed annuities runoff*(c)*	1,076	1,266	1,416
Total	6,616	6,127	5,481
Total Domestic	9,435	8,742	7,751
Foreign Life:			
Life insurance	4,065	3,356	2,874
Personal accident & health	179	161	140
Group products	431	326	249
Intercompany adjustments	(18)	(15)	(12)
Total	4,657	3,828	3,251

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

(in millions)	2004 **(Restated)**	2003*(a)* (Restated)	2002*(a)* (Restated)
Foreign Retirement Services:			
Individual fixed annuities	1,034	368	240
Individual variable annuities	143	4	1
Total	1,177	372	241
Total Foreign	5,834	4,200	3,492
Total net investment income	$ 15,269	$ 12,942	$ 11,243
Pricing net investment gains*(e)*	225	156	88
Realized capital gains (losses)	(182)	84	(460)
Total realized gains (losses)*(e)*	43	240	(372)
Total operating income	$ 7,923	$ 6,807	$ 5,181
Life insurance in force:			
Domestic	$ 772,251	$ 645,606	$ 577,686
Foreign	1,085,843	937,425*(f)*	720,906
Total	$ 1,858,094	$ 1,583,031	$ 1,298,592

(a) Adjusted to conform to 2004 presentation.
(b) Includes structured settlements, single premium immediate annuities and terminal funding annuities.
(c) Represents runoff annuity business sold through discontinued distribution relationships.
(d) 2004 includes approximately $640 million of premium from a reinsurance transaction involving terminal funding business. This single premium amount is offset by a similar increase of benefit reserves.
(e) For purposes of this presentation, pricing net investment gains are segregated as a component of total realized gains (losses). They represent certain amounts of realized capital gains where gains are an inherent element in pricing certain life products in some foreign countries.
(f) Approximately $124 billion relates to the acquisition of AIG Edison Life in August 2003.

AIG s Life Insurance & Retirement Services subsidiaries report their operations through the following operating units: Domestic Life AIG American General, including American General Life Insurance Company (AG Life), USLIFE and AGLA; Domestic Retirement Services VALIC, AIG Annuity and AIG SunAmerica; Foreign Life ALICO, AIG Edison Life, AIG Star Life, AIA, Nan Shan and Philamlife.

Life Insurance & Retirement Services Results

The increase in operating income in 2004 compared to 2003 was caused by strong growth, particularly overseas. Similarly, the increase in operating income in 2003 compared to 2002 was due to strong growth, particularly overseas, coupled with realized capital gains in 2003 as opposed to the realized capital losses incurred in 2002.

Life Insurance & Retirement Services GAAP premiums grew in 2004 when compared with 2003. AIG s Domestic Life operations had record universal and term life sales and good performance from the independent distribution channels. Payout annuities also had strong growth. The domestic group business is below AIG s growth standards, largely because several accounts where pricing was unacceptable were not renewed and loss experience was higher than anticipated. Restructuring efforts in this business are focused on new product introductions, cross selling and other growth strategies. AGLA, the home service business, is diversifying product offerings, enhancing the capabilities and quality of the sales force, and broadening the markets served beyond those historically serviced in an effort to accelerate growth.

The Domestic Retirement Services businesses most correlated to the equity markets performed well, with the strongest sales growth in the individual variable annuity segment. VALIC, the group retirement services business, also benefited from improved equity market performance and has had continued success cross-selling individual variable annuities, fixed annuities and mutual funds. AIG Annuity, the individual fixed annuity business, showed growth in operating income. AIG expects to remain disciplined in pricing and return requirements even though rising short-term interest rates and aggressive competitor pricing have created a more difficult environment.

AIG SunAmerica Retirement Markets, the individual variable annuity business, reported record operating income and sales in 2004. Equity market gains, along with the strong increase in sales and net flows, resulted in a significant improvement in variable annuity fee income when compared to 2003. The decrease in fourth quarter sales followed declining equity markets in the third quarter and the first half of the fourth quarter. AIG is continuing to increase the size of the wholesaler organization as a measure to improve sales.

The majority of the growth in Life Insurance & Retirement Services GAAP premiums in Foreign Life operations was attributable to the life insurance, personal accident & health, and group products lines of business. Globally, AIG s deep and diverse distribution, which includes bancassurance, worksite marketing, direct marketing, and strong agency organizations, provides a powerful platform for growth. This growth was most significant in Southeast Asia where AIG maintains significant market share established by its strong agency force, and in Japan, where AIG has benefited from a flight to quality and development of multiple distribution channels. In light of AIG s recent credit rating downgrades, it is unclear whether this flight to quality will continue to benefit AIG. See Certain Factors Affecting AIG s Business AIG s Credit Ratings in Item 1. Business, for a further discussion of the potential effect of the rating downgrades on AIG s businesses. Also in Japan, AIG Edison Life is being integrated successfully into AIG s life operations. AIG Star Life is growing first year premiums as a result of new product introductions and an expanded agency force, and is benefiting from more successful conservation of

in-force business. The Foreign Retirement Services business continues its strong growth based upon its success in Japan and Korea by expanding its extensive distribution network and leveraging AIG s product expertise. AIG is introducing annuity products in new markets. In January 2005, AIG Star Life entered into an agreement with the Bank of Tokyo Mitsubishi, one of Japan s largest banks, to market a multi-currency fixed annuity.

In China, where AIG has a 57 percent market share of the total 2004 premiums written by foreign life insurers, first year life insurance premiums increased 36.6 percent in 2004 over the prior year. In addition, AIG had very good results in Greece, Central Europe and Russia. Foreign Life Insurance & Retirement Services operations produced 78.0 percent, 76.1 percent and 75.0 percent of Life Insurance & Retirement Services GAAP premiums in 2004, 2003 and 2002, respectively.

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of Life Insurance & Retirement Services GAAP premiums.

	2004
Growth in original currency	16.0%
Foreign exchange effect	3.5
Growth as reported in U.S. dollars	19.5%

Under U.S. GAAP, deposits and certain other considerations received under deferred annuity (variable and fixed) and universal life contracts are not included as GAAP premiums. If such amounts were to be included, the overall growth from 2004 over 2003 would be greater, due in part to large increases in foreign individual fixed annuities.

The growth in net investment income in 2004 was attributable to both foreign and domestic invested new cash flow for investment. Additionally, net investment income was positively affected by the compounding of previously earned and reinvested net investment income. Lastly, AIG s adoption of Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts (SOP 03-1), increased net investment income in 2004 over prior years. See also the discussion under Liquidity herein and Note 1 of Notes to Consolidated Financial Statements.

The contribution of Life Insurance & Retirement Services operating income to AIG s consolidated income before income taxes, minority interest and cumulative effect of accounting changes amounted to 53.4 percent in 2004, compared to 57.2 percent in 2003 and 66.4 percent in 2002. The relative contribution percentage remained constant between years. The decrease in 2003 over 2002 was a result of the $2.1 billion loss reserve charge for General Insurance in 2002.

Underwriting and Investment Risk

The risks associated with the life and accident and health products are underwriting risk and investment risk. The risk associated with the financial and investment contract products is primarily 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. The emergence of significant adverse experience would require an adjustment to DAC and benefit reserves that could have a substantial effect on AIG s results of operations.

AIG s Foreign Life companies generally limit their maximum underwriting exposure on life insurance of a single life to approximately $1.7 million of coverage, and AIG s Domestic Life companies generally limit their maximum underwriting exposure on life insurance of a single life to $5 million of coverage by using yearly renewable term reinsurance. See the discussion under Liquidity herein and Note 6 of Notes to Consolidated Financial Statements.

AIRCO acts primarily as an internal reinsurance company for AIG s foreign life operations. This facilitates insurance risk management (retention, volatility, concentrations) and capital planning locally (branch and subsidiary). It also allows AIG to pool its insurance risks and purchase reinsurance more efficiently at a consolidated level and manage global counterparty risk and relationships.

AIG s domestic Life Insurance and Retirement Services operations utilize internal and third-party reinsurance relationships to manage insurance risks and to facilitate capital management strategies. Pools of highly-rated third-party reinsurers are utilized to manage net amounts at risk in excess of retention limits. AIG s domestic life insurance companies also cede excess, non-economic reserves carried on a statutory-basis only on certain term and universal life insurance policies and certain fixed annuities to AIG Life of Bermuda Ltd., a wholly owned Bermuda reinsurer.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

AIG generally obtains letters of credit in order to obtain statutory recognition of these intercompany reinsurance transactions. For this purpose, AIG entered into a $2.5 billion syndicated letter of credit facility in December 2004. Letters of credit totaling $2.17 billion were outstanding as of December 31, 2004, and letters of credit for all $2.5 billion were outstanding as of December 31, 2005. The letter of credit facility has a ten-year term, but the facility can be reduced or terminated by the lenders beginning after seven years.

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. See also the discussion under Liquidity herein.

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 necessary rebalancing of the invested assets to the policy and contract claims does not occur, a demand could be placed upon liquidity. See also the discussion under Liquidity herein.

AIG actively manages the asset-liability relationship in its foreign operations, as it has been doing throughout AIG s history, even though certain territories lack qualified long-term investments or certain local regulatory authorities may impose investment restrictions. For example, in Japan and several Southeast Asian countries, the duration of the investments is often for a shorter period than the effective maturity of the related policy liabilities. Therefore, there is a risk that the reinvestment of the proceeds at the maturity of the initial investments may be at a yield below that of the interest required for the accretion of the policy liabilities. Additionally, there exists a future investment risk associated with certain policies currently in force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

To maintain an adequate yield to match the interest necessary to support future policy liabilities, management focus is required to reinvest the proceeds of the maturing securities and to invest the future premium receipts while continuing to maintain satisfactory investment quality.

Certain foreign jurisdictions, including Japan, have limited long-dated bond markets, and AIG may use alternative investments, including equities, real estate and foreign currency denominated fixed income instruments to extend the effective duration and increase the yield of the investment portfolio to more closely match the requirements of the policyholder liabilities and DAC recoverability, particularly in Taiwan, where Nan Shan has approximately 30 percent of invested assets in foreign currencies. Using foreign currency denominated investments to support policyholder liabilities could increase the risk to and volatility of cash flows and income. AIG actively manages this risk through regular monitoring and selected hedging strategies.

AIG actively manages the asset-liability relationship in its domestic operations. This relationship is more easily managed through the ample supply of qualified long-term investments.

AIG uses asset-liability matching as a management tool worldwide to determine the composition of the invested assets and appropriate marketing strategies. As a part of these strategies, AIG may determine that it is economically advantageous to be temporarily in an unmatched position due to anticipated interest rate or other economic changes. In addition, the absence of long-dated fixed income instruments in certain markets may preclude a matched asset-liability position in those markets.

A number of guaranteed benefits are offered on certain variable life and variable annuity products. See Note 21 of Notes to Consolidated Financial Statements for a discussion of new accounting guidance for these benefits.

DAC for life insurance and retirement services products arises from the deferral of those costs that vary with, and are directly related to, the acquisition of new or renewal business. Policy acquisition costs for life insurance products are generally deferred and amortized over the premium paying period of the policy. Policy acquisition costs which relate to universal life and investment-type products, including variable and fixed annuities (investment-oriented products) are deferred and amortized, with interest, as appropriate, in relation to the historical and future incidence of estimated gross profits to be realized over the estimated lives of the contracts. With respect to universal life and investment-oriented products, AIG s policy, as appropriate, has been to adjust amortization assumptions for DAC when estimates of current or future gross profits to be realized from these contracts are revised. With respect to variable annuities sold domestically (representing the vast majority of AIG s variable annuity business), the assumption for the long-term annual net growth rate of the equity markets used in the determination of DAC amortization is approximately ten percent. A methodology referred to as reversion to the mean is used to maintain this long-term net growth rate assumption, while giving consideration to short-term variations in equity markets. Estimated gross profits include investment income and gains and losses on

investments less interest required as well as other charges in the contract less actual mortality and expenses. Current experience and changes in the expected future gross profits are analyzed to determine the effect on the amortization of

DAC. The estimation of projected gross profits requires significant management judgment. The elements with respect to the current and projected gross profits are reviewed and analyzed quarterly and are adjusted appropriately.

AIG s variable annuity earnings will be affected by changes in market returns because separate account revenues, primarily composed of mortality and expense charges and asset management fees, are a function of asset values.

DAC for both insurance-oriented and investment-oriented products as well as retirement services products are subject to review for recoverability, which involve estimating the future profitability of current business. This review also involves significant management judgment. If the actual emergence of future profitability were to be substantially different than that estimated, AIG s results of operations could be significantly affected in future periods. See also Note 4 of Notes to Consolidated Financial Statements.

Insurance and Asset Management Invested Assets

AIG s investment strategy is to invest primarily in high quality securities while maintaining diversification to avoid significant exposure to issuer, industry and/or country concentrations. With respect to General Insurance, AIG s strategy is to invest in longer duration fixed maturity investments to maximize the yields at the date of purchase. With respect to Life Insurance & Retirement Services, AIG s strategy is to produce cash flows required to meet maturing insurance liabilities. See also the discussion under Operating Review Life Insurance & Retirement Services Operations herein. AIG invests in equities for various reasons, including diversifying its overall exposure to interest rate risk. Available for sale bonds and equity securities are subject to declines in fair value. Such declines in fair value are presented in unrealized appreciation or depreciation of investments, net of taxes as a component of accumulated other comprehensive income. Generally, insurance regulations restrict the types of assets in which an insurance company may invest. When permitted by regulatory authorities and when deemed necessary to protect insurance assets, including invested assets, from adverse movements in foreign currency exchange rates, interest rates and equity prices, AIG and its insurance subsidiaries may enter into derivative transactions as end users. See also the discussion under Derivatives herein.

In certain jurisdictions, significant regulatory and/or foreign governmental barriers exist which may not permit the immediate free flow of funds between insurance subsidiaries or from the insurance subsidiaries to AIG parent.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

The following tables summarize the composition of AIG s insurance and asset management invested assets by segment, at December 31, 2004 and 2003:

(dollars in millions)	General Insurance	Life Insurance & Retirement Services	Asset Management	Total	Percent of Total	Percent Distribution	
						Domestic	Foreign
2004 (Restated)							
Fixed maturities:							
Available for sale, at market value	$ 44,376	$ 259,602	$ 39,077	$ 343,055	68.5%	61.2%	38.8%
Held to maturity, at amortized cost	18,294			18,294	3.7	100.0	
Trading securities, at market value		600	2,384	2,984	0.6	1.2	98.8
Equity securities:							
Common stocks, at market value	4,165	11,280	177	15,622	3.1	21.9	78.1
Preferred stocks, at market value	1,466	565		2,031	0.4	91.9	8.1
Mortgage loans on real estate, policy and collateral loans	22	16,858	5,093	21,973	4.4	65.6	34.4
Short-term investments, including time deposits, and cash	2,113	5,515	9,679	17,307	3.4	37.1	62.9
Real estate	592	3,007	326	3,925	0.8	22.8	77.2
Investment income due and accrued	997	4,035	461	5,493	1.1	57.3	42.7
Securities lending collateral	4,889	34,923	9,357	49,169	9.8	86.7	13.3
Other invested assets	5,604	7,072	8,316	20,992	4.2	86.7	13.3
Total	$ 82,518	$ 343,457	$ 74,870	$ 500,845	100.0%	63.8%	36.2%

(dollars in millions)	General Insurance	Life Insurance & Retirement Services	Asset Management	Total	Percent of Total	Domestic	Foreign
2003 (Restated)							
Fixed maturities:							
Available for sale, at market value	$ 41,610	$ 225,404	$ 32,453	$ 299,467	74.6%	64.0%	36.0%
Held to maturity, at amortized cost	8,037			8,037	2.0	100.0	
Trading securities, at market value		282		282	0.1	100.0	
Equity securities:							
Common stocks, at market value	3,759	3,649	60	7,468	1.9	44.0	56.0
Preferred stocks, at market value	1,371	525		1,896	0.5	91.7	8.3
Mortgage loans on real estate, policy and collateral loans	25	15,546	5,228	20,799	5.2	68.5	31.5
Short-term investments, including time deposits, and cash	1,912	4,662	2,343	8,917	2.2	53.1	46.9
Real estate	569	2,903	285	3,757	0.9	28.6	71.4
Investment income due and accrued	778	3,343	410	4,531	1.1	59.9	40.1
Securities lending collateral	5,225	19,734	4,433	29,392	7.3	78.1	21.9
Other invested assets	4,898	5,990	5,965	16,853	4.2	88.7	11.3
Total	$ 68,184	$ 282,038	$ 51,177	$ 401,399	100.0%	66.2%	33.8%

Credit Quality

At December 31, 2004, approximately 63 percent of the fixed maturities investments were domestic securities. Approximately 32 percent of such domestic securities were rated AAA by one or more of the principal rating agencies. Approximately six percent were below investment grade or not rated.

A significant portion of the foreign fixed income portfolio is rated by Moody s, S&P or similar foreign services. Similar credit quality rating services are not available in all overseas locations. AIG reviews the credit quality of the foreign portfolio nonrated fixed income investments, including mortgages. At December 31, 2004, approximately 20 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG s internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately four percent were below investment grade or not rated at that date. A large portion of the foreign fixed income portfolio are sovereign fixed maturity securities supporting the policy liabilities in the country of issuance.

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

Valuation of Invested Assets

AIG has the ability to hold any fixed maturity security to its stated maturity, including those fixed maturity securities classified as available for sale. Therefore, the decision to sell any such fixed maturity security classified as available for sale reflects the judgment of AIG s management that the security sold is unlikely to provide, on a relative value basis, as attractive a return in the future as alternative securities entailing comparable risks. With respect to distressed securities, the sale decision reflects management s judgment that the risk-discounted anticipated ultimate recovery is less than the value achievable on sale.

The valuation of invested assets involves obtaining a market value for each security. The source for the market value is generally from market exchanges or dealer quotations, with the exception of nontraded securities.

If AIG chooses to hold a security, it evaluates the security for an impairment in valuation. As a matter of policy, the determination that a security has incurred an other-than-temporary decline in value and the amount of any loss recognition requires the judgment of AIG s management and a continual review of its investments.

In general, a security is considered a candidate for impairment if it meets any of the following criteria:

Trading at a significant (25 percent or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine months or longer);

The occurrence of a discrete credit event resulting in *(i)* the issuer defaulting on a material outstanding obligation; or *(ii)* the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for the court supervised reorganization of insolvent enterprises; or *(iii)* the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or

In the opinion of AIG s management, it is possible that AIG may not realize a full recovery on its investment, irrespective of the occurrence of one of the foregoing events.

Once a security has been identified as impaired, the amount of such impairment is determined by reference to that security s contemporaneous market price and recorded as a charge to earnings.

As a result of these policies, AIG recorded impairment losses net of taxes of approximately $369 million, $1.0 billion and $595 million in 2004, 2003 and 2002, respectively. The recovery in global equity and credit markets and reasonably steady domestic interest rates were the primary reasons for the decline in impairment loss recognition from 2003 to 2004.

No impairment charge with respect to any one single credit was significant to AIG s consolidated financial condition or results of operations, and no individual impairment loss exceeded 1.0 percent of consolidated net income for 2004.

Excluding the impairments noted above, the changes in market value for AIG s available for sale portfolio, which constitutes the vast majority of AIG s investments, were recorded in accumulated other comprehensive income as unrealized gains or losses, net of tax.

At December 31, 2004, the fair value of AIG s fixed maturities and equity securities aggregated to $383.9 billion. At December 31, 2004, aggregate unrealized gains after taxes for fixed maturity and equity securities were $11.5 billion. At December 31, 2004, the aggregate unrealized losses after taxes of fixed maturity and equity securities were approximately $1.2 billion.

The effect on net income of unrealized losses after taxes will be further mitigated upon realization, because certain realized losses will be charged to participating policyholder accounts, and realization will result in current decreases in the amortization of certain deferred policy acquisition costs.

At December 31, 2004, unrealized losses for fixed maturity securities and equity securities did not reflect any significant industry concentrations.

The amortized cost of fixed maturities available for sale in an unrealized loss position at December 31, 2004, by contractual maturity, is shown below:

(in millions)	Amortized Cost

Due in one year or less	$	1,637
Due after one year through five years		13,310
Due after five years through ten years		22,334
Due after ten years		28,824
Total	$	66,105

In the twelve months ended December 31, 2004, the pretax realized losses incurred with respect to the sale of fixed maturities and equity securities were $1.8 billion. The aggregate fair value of securities sold was $31.7 billion, which was approximately 95 percent of amortized cost. The average period of time that securities sold at a loss during the twelve months ended December 31, 2004 were trading continuously at a price below book value was approximately four months.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

At December 31, 2004, aggregate pretax unrealized gains were $17.8 billion, while the pretax unrealized losses with respect to investment grade bonds, below investment grade bonds and equity securities were $1.3 billion, $284 million and $256 million, respectively. Aging of the pretax unrealized losses with respect to these securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the market value is less than amortized cost or cost), including the number of respective items, was as follows:

	Less than or equal to 20% of Cost*(a)*			Greater than 20% to 50% of Cost*(a)*			Greater than 50% of Cost*(a)*			Total		
Aging *(dollars in millions)*	Cost*(a)*	Unrealized Loss	Items	Cost*(a)*	Unrealized Loss	Items	Cost*(a)*	Unrealized Loss	Items	Cost*(a)*	Unrealized Loss*(b)*	Items
Investment grade bonds												
0-6 months	$ 29,918	$ 265	2,736	$ 11	$ 4	1	$ 2	$ 2	9	$ 29,931	$ 271	2,746
7-12 months	18,614	348	1,765	65	16	1				18,679	364	1,766
>12 months	12,561	604	1,158	203	50	32	2	1	1	12,766	655	1,191
Total	$ 61,093	$ 1,217	5,659	$ 279	$ 70	34	$ 4	$ 3	10	$ 61,376	$ 1,290	5,703
Below investment grade bonds												
0-6 months	$ 2,190	$ 58	249	$ 15	$ 4	11	$ 4	$ 3	20	$ 2,209	$ 65	280
7-12 months	1,058	47	174	15	5	7	9	6	14	1,082	58	195
>12 months	1,220	101	217	204	51	63	14	9	4	1,438	161	284
Total	$ 4,468	$ 206	640	$ 234	$ 60	81	$ 27	$ 18	38	$ 4,729	$ 284	759
Total bonds												
0-6 months	$ 32,108	$ 323	2,985	$ 26	$ 8	12	$ 6	$ 5	29	$ 32,140	$ 336	3,026
7-12 months	19,672	395	1,939	80	21	8	9	6	14	19,761	422	1,961
>12 months	13,781	705	1,375	407	101	95	16	10	5	14,204	816	1,475
Total	$ 65,561	$ 1,423	6,299	$ 513	$ 130	115	$ 31	$ 21	48	$ 66,105	$ 1,574	6,462
Equity securities												
0-6 months	$ 1,563	$ 78	570	$ 87	$ 25	54	$ 13	$ 13	48	$ 1,663	$ 116	672
7-12 months	446	38	223	311	93	80	15	9	42	772	140	345
>12 months												
Total	$ 2,009	$ 116	793	$ 398	$ 118	134	$ 28	$ 22	90	$ 2,435	$ 256	1,017

(a) For bonds, represents amortized cost.
(b) As more fully described above, upon realization, certain realized losses will be charged to participating policyholder accounts, or realization will result in a current decrease in the amortization of certain deferred policy acquisition costs.

As stated previously, the valuation for AIG s investment portfolio comes from market exchanges or dealer quotations, with the exception of nontraded securities. AIG considers nontraded securities to mean certain fixed income investments, certain structured securities, direct private equities, limited partnerships, and hedge funds. The aggregate carrying value of these securities at December 31, 2004 was approximately $65.0 billion, or approximately 13 percent of the portfolio.

The methodology used to estimate fair value of nontraded fixed income investments is by reference to traded securities with similar attributes and using a matrix pricing methodology. This technique takes into account such factors as the industry, the security s rating and tenor, its coupon rate, its position in the capital structure of the issuer, and other relevant factors. The change in fair value is recognized as a component

of accumulated other comprehensive income, net of tax.

For certain structured securities, the carrying value is based on an estimate of the security s future cash flows pursuant to the requirements of Emerging Issues Task Force Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. The change in carrying value is recognized in income.

Hedge funds and limited partnerships in which AIG holds in the aggregate less than a five percent interest are carried at fair value. The change in fair value is recognized as a component of accumulated other comprehensive income, net of tax.

With respect to hedge funds and limited partnerships in which AIG holds in the aggregate a five percent or greater interest, AIG uses the equity method to record these investments. Changes in value are recorded in earnings.

AIG obtains the fair value of its investments in limited partnerships and hedge funds from information provided by the general partner or manager of each of these investments, the accounts of which are generally audited on an annual basis.

Each of these investment categories is regularly tested to determine if impairment in value exists. Various valuation techniques are used with respect to each category in this determination.

Financial Services Operations

AIG s Financial Services subsidiaries engage in diversified activities including aircraft leasing, capital market transactions, and consumer and insurance premium financing. See also Note 3 of Notes to Consolidated Financial Statements.

Aircraft Finance

AIG s Aircraft Finance operations represent the operations of ILFC, which generates its revenues primarily from leasing new and used commercial jet aircraft to domestic and foreign airlines. Revenues also result from the remarketing of commercial jets for its own account, for airlines and for financial institutions.

ILFC finances its purchases of aircraft primarily through the issuance of a variety of debt instruments. The composite borrowing rates at December 31, 2004, 2003 and 2002 were 4.34 percent, 4.53 percent and 4.73 percent, respectively. See also the discussions under Capital Resources and Liquidity herein and Notes 3 and 9 of Notes to Consolidated Financial Statements.

ILFC is exposed to operating loss and liquidity strain through nonperformance of aircraft lessees, through owning aircraft which it would be unable to sell or re-lease at acceptable rates at lease expiration and, in part, through committing to purchase aircraft which it would be unable to lease.

ILFC manages the risk of nonperformance by its lessees with security deposit requirements, through repossession rights, overhaul requirements, and closely monitoring industry conditions through its marketing force. However, there can be no assurance that ILFC would be able to successfully manage the risks relating to the effect of possible future deterioration in the airline industry. Approximately 90% of ILFC s fleet is leased to non-U.S. carriers, and this fleet, comprised of the most efficient aircraft in the airline industry, continues to be in high demand from such carriers.

ILFC typically contracts to re-lease aircraft before the end of the existing lease term. For aircraft returned before the end of the lease term, ILFC has generally been able to re-lease such aircraft within two to six months of its return. As a lessor, ILFC considers an aircraft idle or off lease when the aircraft is not subject to a signed lease agreement or signed letter of intent. ILFC had one aircraft off lease at December 31, 2004. As of March 31, 2005, all new aircraft deliveries in 2005 have been leased, and 92 percent of 2006 new aircraft deliveries have been leased. See also the discussions under Capital Resources and Liquidity herein.

ILFC sold two portfolios consisting of 34 and 37 aircraft in 2004 and 2003, respectively, to two trusts connected to securitization transactions. Certain of AIG s Life Insurance & Retirement Services businesses purchased a large share of the securities issued in connection with these securitizations, which included both debt and equity securities.

Management formally reviews regularly, and no less frequently than quarterly, issues affecting ILFC s fleet, including events and circumstances that may cause impairment of aircraft values. Management evaluates aircraft in the fleet as necessary, based on these events and circumstances in accordance with Statement of Financial Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (FAS 144). ILFC has not recognized any impairment related to its fleet, as the existing service potential of the aircraft in ILFC s portfolio has not been diminished. Further, ILFC has been able to re-lease the aircraft without diminution in lease rates to an extent that would require an impairment write-down. See also the discussions under Liquidity herein.

Capital Markets

AIG s Capital Markets operations represents the integrated operations of AIGFP and AIGTG. The integration of its Capital Markets operations has produced and will continue to produce greater efficiencies and product synergies as well as growth opportunities. As Capital Markets is a transaction-oriented operation, current and past revenues and operating results may not provide a basis for predicting future performance. Also, AIG s Capital Markets operations may be adversely affected by the downgrades in AIG s credit ratings. See Certain Factors Affecting AIG s Business AIG s Credit Ratings in Item 1. Business for a further discussion of the potential effect of the rating downgrades on AIG s Capital

Markets businesses.

AIG s Capital Markets operations derive substantially all their revenues from hedged financial positions entered in connection with counterparty transactions rather than from speculative transactions. These subsidiaries participate in the derivatives dealer market conducting, primarily as principal, an interest rate, currency, equity, commodity, and credit products business.

As a dealer, AIGFP marks all derivative and trading transactions to fair value daily. Thus, a gain or loss on each transaction is recognized daily. Under GAAP, in certain instances, gains and losses are required to be recorded in earnings immediately, whereas in other instances, they are required to be recognized over the life of the underlying instruments. AIGFP economically hedges the market risks arising from its transactions. However, for GAAP financial statements, hedge accounting, as described in FAS 133, is not currently being applied to any of the derivatives and related assets and liabilities. Accordingly, revenues and operating income are exposed to volatility resulting from differences in the timing of revenue recognition

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

between the derivatives and the hedged assets and liabilities. Revenues of the Capital Markets operations and the percentage change in revenues for any given period are significantly affected by the number and size of transactions entered into by these subsidiaries during that period relative to those entered into during the prior period as well as the volatility noted above for the accounting under FAS 133. Operating income and the percentage change in operating income for any period are determined by the number, size and profitability of the transactions attributable to that period relative to those attributable to the prior period as well as the volatility noted above for the accounting under FAS 133. Generally, the realization of trading revenues as measured by the receipt of funds is not a significant reporting event as the gain or loss on AIGFP s trading transactions is currently reflected in operating income as the fair values change from period to period.

Derivative transactions are entered into in the ordinary course of Capital Markets operations. Therefore, income on interest rate, currency, equity, commodity, and credit derivatives, are recorded on a mark to market value or at estimated fair value where market prices are not readily available with the resulting unrealized gains or losses reflected in the income statement in the current year. In 2004, less than five percent of revenues resulted from transactions valued at estimated fair value. The mark to fair value of derivative transactions is reflected in the balance sheet in the captions Unrealized gain on swaps, options and forward transactions and Unrealized loss on swaps, options and forward transactions. Pursuant to ISDA Master Agreements, unrealized gains represent the present value of the aggregate of each net receivable by counterparty, and the unrealized losses represent the present value of the aggregate of each net payable by counterparty as of December 31, 2004. These amounts will change from one period to the next due to changes in interest rates, currency rates, equity and commodity prices and other market variables, as well as cash movements, execution of new transactions and the maturing of existing transactions. See also the discussion under Derivatives herein and Note 20 of Notes to Consolidated Financial Statements.

Spread income on investments and borrowings is recorded on an accrual basis over the life of the transaction. Investments are classified as securities available for sale and are marked to market with the resulting unrealized gains or losses reflected in accumulated other comprehensive income. AIGFP hedges the economic exposure on its investments and borrowings through its derivatives portfolio. The requirements under FAS 133 hedge accounting were not met for these hedge transactions for the years ending December 31, 2004, 2003, 2002, 2001 and 2000.

The related investments continue to be classified as securities available for sale. The related U.S. dollar denominated borrowings are carried at cost. AIGFP borrowings in any currency other than the U.S. dollar result in unrealized foreign exchange gains or losses reported as income.

Consumer Finance

Domestically, AIG s Consumer Finance operations derive a substantial portion of their revenues from finance charges assessed on outstanding mortgages, home equity loans, secured and unsecured consumer loans and retail merchant financing. Credit quality continues to be strong and receivables grew substantially. Overseas operations, particularly those in emerging markets, provide credit cards, personal and auto loans, term deposits, savings accounts, sales finance and mortgages.

Consumer Finance operations are exposed to loss when contractual payments are not received. Collection exposure is managed through tight underwriting controls, mix of loans and collateral thereon.

Financial Services operations for 2004, 2003 and 2002 were as follows:

(in millions)	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Revenues*(a)*:			
Aircraft Finance*(b)*	$ 3,136	$ 2,897	$ 2,698
Capital Markets*(c)(d)*	1,278	595	1,577
Consumer Finance*(e)*	2,978	2,642	2,473
Other	103	108	74
Total	$ 7,495	$ 6,242	$ 6,822
Operating income (loss)*(a)*:			

Aircraft Finance	$ 642	$ 672	$ 684
Capital Markets*(d)*	662	(188)	890
Consumer Finance	808	623	507
Other, including intercompany adjustments	68	75	44
Total	$ 2,180	$ 1,182	$ 2,125

(a) Includes the unrealized gain (loss) attributable to hedging activities that do not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For 2004, 2003 and 2002, the effect was $(27) million, $49 million and $20 million, respectively, in operating income for Aircraft Finance and $(122) million, $(1.01) billion and $220 million in both revenues and operating income for Capital Markets.

(b) Revenues were primarily from ILFC aircraft lease rentals.

(c) Revenues, shown net of interest expense, are primarily from hedged financial positions entered into in connection with counterparty transactions and the effect of hedging activities that do not qualify for hedge accounting treatment under FAS 133 described in (a) above.

(d) Certain transactions entered into by AIGFP generate tax credits and benefits which are shown in the income tax line on the consolidated statement of income. Thus, this source of income is not reflected in the revenues and operating income categories. The amount of tax credits and benefits for the years ended December 31, 2004, 2003 and 2002 are $107 million, $123 million and $96 million, respectively.

(e) Revenues were primarily finance charges.

Financial Services Results

Financial Services operating income increased in 2004 compared to 2003. Fluctuations in revenues and operating income from quarter to quarter are not unusual because of the transaction-oriented nature of Capital Markets operations and the volatility resulting from the accounting treatment for the economic hedges under FAS 133. Capital Markets operating income was also negatively affected in 2004 by the costs of the PNC settlement. See Item 3. Legal Proceedings.

To the extent the Financial Services subsidiaries, other than AIGFP, use derivatives to economically hedge their assets or liabilities with respect to their future cash flows, and such hedges do not qualify for hedge accounting treatment under FAS 133 (as previously discussed in Restatements of Previously Issued Financial Statements), the changes in fair value of such derivatives are recorded in realized capital gains (losses) or other revenues.

Financial market conditions in 2004 compared with 2003 were characterized by interest rates which were broadly unchanged across fixed income markets globally, a tightening of credit spreads and higher equity valuations. Capital Markets results in 2004 compared with 2003 reflected a shift in product segment activity to respond to these conditions. See also Note 20 of Notes to Consolidated Financial Statements.

The most significant component of Capital Markets operating expenses is compensation, which was approximately $497 million, $616 million and $557 million in 2004, 2003 and 2002, respectively. The amount of compensation was not affected by unrealized gains or losses attributable to economic hedges, including the related foreign exchange gains and losses not qualifying for hedge accounting treatment under FAS 133.

The decrease in Aircraft Finance operating income reflects the effect of the disposition of approximately $2 billion in aircraft through securitizations in the third quarter 2003 and first quarter 2004. Offsetting the benefit to operating income of the growth in ILFC s aircraft fleet is a decrease of its lease margin for 2004 compared to 2003.

With respect to ILFC, the revenue growth in each year resulted primarily from the increase in flight equipment under operating lease, despite the aforementioned effect of securitizations, and the increase in the relative value of the leased fleet. The decline in ILFC s operating income for 2003 was largely a result of the decline in aircraft remarketing due to the relatively weak market conditions for the sale of secondhand aircraft.

ILFC continued to see net improvements in lease rates and an increasing level of interest from traditional buyers, third-party investors and debt providers for the purchase of aircraft from ILFC s extensive lease portfolio. Thus, the outlook for 2005 is positive.

In connection with a global aircraft lease transaction entered into in 2000 for a total of 14 aircraft, ILFC acquired certain securities of and issued certain guarantees to ATA Airlines and related entities (ATA). During the fourth quarter of 2004, ATA filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On the basis of estimates of the probable outcome of the ATA bankruptcy, ILFC recorded a charge in the fourth quarter to write down the value of the ATA securities and record obligations assumed under the guarantee. The pre-tax charges aggregated $54 million (reported as a realized capital loss) and did not have a material effect on AIG s results of operations, financial condition or liquidity.

ATA has cured all of the defaults under the existing leases and continues to perform under the leases at the pre-bankruptcy contracted lease terms.

Consumer Finance operations, both domestically and internationally, did very well with increased revenues and operating income.

The increase in Consumer Finance revenues in 2004 was the result of growth in average finance receivables. Credit quality continues to be strong. Foreign Consumer Finance operations performed well, as the operations in Poland continued its strong growth, and the Hong Kong credit card business benefited from the strengthening local economy, resulting in less need for loan loss provisions. Further, reductions of the cost to borrow led to an improvement in the operating income in 2003 over 2002.

Financial Services operating income represented 14.7 percent of AIG s consolidated income before income taxes, minority interest and cumulative effect of accounting changes in 2004. This compares to 9.9 percent and 27.2 percent in 2003 and 2002, respectively. The increase in contribution percentage in 2004 and the decrease in 2003 was primarily due to the fluctuation in earnings resulting from derivatives that did not qualify for hedge accounting under FAS 133. The decrease in contribution percentage in 2003 was also influenced by the effect of the 2002 General Insurance loss reserve charge on General Insurance operating income and the reduced contribution of General Insurance operations to income before income taxes, minority interest and cumulative effect of accounting changes.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

Financial Services Invested Assets

The following table is a summary of the composition of AIG s Financial Services invested assets at December 31, 2004 and 2003. See also the discussions under Operating Review Financial Services Operations , Capital Resources and Derivatives herein.

	2004	(Restated)	2003	(Restated)
(dollars in millions)	Invested Assets	Percent of Total	Invested Assets	Percent of Total
Flight equipment primarily under operating leases, net of accumulated depreciation	$ 32,130	21.6%	$ 29,870	23.6%
Finance receivables, net of allowance	23,574	15.9	17,500	13.8
Unrealized gain on swaps, options and forward transactions	22,670	15.3	21,459	16.9
Securities available for sale, at market value	31,225	21.0	24,938	19.7
Trading securities, at market value	2,746	1.8	3,538	2.8
Securities purchased under agreements to resell, at contract value	26,272	17.7	20,819	16.4
Trading assets	3,433	2.3	2,500	2.0
Spot commodities	534	0.4	245	0.2
Other, including short-term investments	5,982	4.0	5,804	4.6
Total	$ 148,566	100.0%	$ 126,673	100.0%

As previously discussed, the cash used for the purchase of flight equipment is derived primarily from the proceeds of ILFC s debt financings. The primary sources for the repayment of this debt and the interest expense thereon are the cash flow from operations, proceeds from the sale of flight equipment and the rollover and refinancing of the prior debt. During 2004, ILFC acquired flight equipment costing $4.86 billion. See also the discussion under Operating Review Financial Services Operations and Capital Resources herein.

At December 31, 2004, ILFC had committed to purchase 371 new and used aircraft deliverable from 2005 through 2010 at an estimated aggregate purchase price of $21.6 billion and had options to purchase six new aircraft deliverable through 2007 at an estimated aggregate purchase price of $361 million. As of March 31, 2005, ILFC has entered into leases for all of the new aircraft to be delivered in 2005, 86 of 93 of the new aircraft to be delivered in 2006 and 29 of 166 of the new aircraft to be delivered subsequent to 2006. ILFC will be required to find customers for any aircraft currently on order and any aircraft to be ordered, and it must arrange financing for portions of the purchase price of such equipment. In a rising interest rate environment, ILFC negotiates higher lease rates on any new contracts. ILFC has been successful to date both in placing its new aircraft on lease or under sales contract and obtaining adequate financing, but there can be no assurance that such success will continue in future environments.

AIG s Consumer Finance operations provide a wide variety of consumer finance products, including real estate mortgages, consumer loans, retail sales finance and credit-related insurance to customers both domestically and overseas, particularly in emerging markets. These products are funded through deposits and various borrowings including commercial paper and medium term notes. AIG s Consumer Finance operations are exposed to credit risk and risk of loss resulting from adverse fluctuations in interest rates. Over half of the loan balance is related to real estate loans which are substantially collateralized by the related properties.

With respect to credit losses, the allowance for finance receivable losses is maintained at a level considered adequate to absorb anticipated credit losses existing in that portfolio.

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

Review Financial Services Operations and Derivatives herein.

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

Securities available for sale is predominately a portfolio of debt securities, where the individual securities have varying degrees of credit risk. At December 31, 2004, the average credit rating of this portfolio was AA+ or the equivalent thereto as determined through rating agencies or internal review. AIGFP has also entered into credit derivative transactions to economically hedge its credit risk associated with $225 million of these securities. Securities deemed below investment grade at December 31, 2004 amounted to approximately $87 million in fair value representing 0.4 percent of the total AIGFP securities available for sale. There have been no significant downgrades through March 31, 2005.

AIGFP s risk management objective is to minimize interest rate, currency, commodity and equity risks associated with its securities available for sale. That is, when AIGFP purchases a security for its securities available for sale investment portfolio, it simultaneously enters into an offsetting internal hedge such that the payment terms of the hedging transaction offset the payment terms of the investment security, which achieves the economic result of converting the return on the underlying security to USD LIBOR plus or minus a spread based on the underlying profit on each security on the initial trade date. The market risk associated with such internal hedges is managed on a portfolio basis, with third party hedging transactions executed as necessary. As hedge accounting treatment is not achieved in accordance with FAS 133, the unrealized gains and losses on these securities, resulting from changes in interest rates, currency rates, commodity and equity prices, are recorded in accumulated other comprehensive income while the unrealized gains and losses on the related economic hedges are reflected in operating income. When a security is sold, the related hedging transaction is terminated. The realized gain or loss with respect to each security is then recorded in operating income.

Securities purchased under agreements to resell are treated as collateralized financing transactions. AIGFP takes possession of or obtains a security interest in securities purchased under agreements to resell. AIGFP further minimizes its credit risk by monitoring counterparty credit exposure and, when it 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.

AIGFP is exposed to credit risk. If its securities available for sale portfolio were to suffer significant default and the collateral held declined significantly in value with no replacement, or the credit default swap counterparty failed to perform, AIGFP could have a liquidity strain. AIG guarantees AIGFP s payment obligations, including its debt obligations.

AIGFP also conducts, as principal, market-making and trading activities in foreign exchange and commodities, primarily precious metals. AIGFP owns inventories in the commodities in which it trades and may reduce the exposure to market risk through the use of swaps, forwards, futures, and option contracts. AIGFP uses derivatives to manage the economic exposure of its various trading positions and transactions from adverse movements of interest rates, foreign currency exchange rates and commodity prices. AIGFP supports its trading activities largely through trading liabilities, unrealized losses on swaps, short-term borrowings, securities sold under agreements to repurchase and securities and commodities sold but not yet purchased. See also the discussions under Capital Resources herein and Note 20 of Notes to Consolidated Financial Statements.

The gross unrealized gains and gross unrealized losses of Capital Markets operations included in the financial services assets and liabilities at December 31, 2004 were as follows:

(in millions)	Gross Unrealized Gains	Gross Unrealized Losses
Securities available for sale, at market value*(a)*	$ 2,166	$ 112
Unrealized gain/loss on swaps, options and forward transactions*(b)*	22,670	15,985

(a) See also Note 8(h) of Notes to Consolidated Financial Statements.
(b) These amounts are also presented as the respective balance sheet amounts.

AIGFP s interest rate and currency risks on securities available for sale, at market, are economically managed by taking internal offsetting positions on a security by security basis with its derivatives portfolio, thereby offsetting a significant portion of the unrealized appreciation or

depreciation. As previously discussed in Financial Services Results these economic offsets do not meet the hedge accounting requirements of FAS 133.

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

The senior management of AIG defines the policies and establishes general operating parameters for Capital Markets operations. AIG s senior management has established various oversight committees to review the various financial market, operational and credit issues of the Capital Markets operations. The senior management of AIGFP reports the results of its operations to and reviews future strategies with AIG s senior management.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

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

AIGFP held a large portfolio of privately negotiated financing transactions with institutional counterparties in the United Kingdom. Certain provisions in the UK Finance Bill that was published by the House of Commons on March 22, 2005 have caused AIGFP s counterparties to exercise rights to unwind these transactions early. Although the unwind of these transactions will not cause AIGFP to suffer any losses, the unwinds do mean that AIGFP will not realize spread income in the future that AIGFP expects it would have realized had the transactions remained outstanding. The aggregate reduction in 2005 operating income attributable to such foregone future accrual earnings is currently expected to be approximately $75 million.

Asset Management Operations

AIG s Asset Management operations comprise a wide variety of investment-related services and investment products including institutional and retail asset management, broker dealer services and spread-based investment business from the sale of guaranteed investment contracts, also known as funding agreements (GICs). Such services and products are offered to individuals and institutions both domestically and overseas.

As discussed above, AIG Retirement Services operations are now reported with Life Insurance operations. Therefore, Asset Management operations now represent the results of AIG s asset management and brokerage services operations, mutual fund operations and the foreign and domestic GIC operations.

Asset Management revenues and operating income for 2004, 2003 and 2002 were as follows:

(in millions)	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Revenues:			
Guaranteed Investment Contracts	$ 3,192	$ 2,619	$ 2,534
Institutional Asset Management	1,049	671	557
Brokerage Services and Mutual Funds	249	206	227
Other	224	155	149
Total	$ 4,714	$ 3,651	$ 3,467
Operating income:			
Guaranteed Investment Contracts*(a)*	$ 1,328	$ 885	$ 787
Institutional Asset Management*(b)*	515	227	149
Brokerage Services and Mutual Funds	70	60	48
Other	212	144	141
Total	$ 2,125	$ 1,316	$ 1,125

(a) The effect of hedging activities that do not qualify for hedge accounting treatment under FAS 133 was $313 million, $230 million and $138 million for 2004, 2003 and 2002, respectively.

(b) Includes the results of certain AIG managed private equity and real estate funds that are consolidated effective December 31, 2003 pursuant to FIN46R, Consolidation of Variable Interest Entities . For 2004, operating income includes $195 million of third-party limited partner earnings offset in Minority interest expense.

Asset Management Results

Asset Management operating income increased in 2004 as a result of the upturn in worldwide financial markets and a strong global product portfolio. The operating income growth results from fees related to the management of mutual funds and various investment portfolios that are, in great part, contingent upon the growth in the equity markets and customer interest in equity sensitive products. Thus, as equity markets expand and contract, the appetite for listed and private equity investments changes. The revenues and operating income with respect to this segment are similarly affected. GICs are sold domestically and abroad to both institutions and individuals. These products are written on an opportunistic basis when market conditions are favorable. Thus, revenues, operating income and cash flow attributable to GICs will vary from one reporting period to the next. AIG expects to launch a matched investment program utilizing issuances of AIG debt securities, which will become AIG s principal spread-based investment activity. In light of recent developments, the timing of the launch of this program is unclear. See Certain Factors Affecting AIG s Business Access to Capital Markets in Item 1. Business for a discussion of how the timing of this program may be delayed. Because AIG s credit spreads in the capital markets have widened following the ratings declines, there may be a reduction in the earnings on new business in AIG s institutional spread based funding business.

Asset Management operating income represented 14.3 percent of AIG s consolidated income before income taxes, minority interest and cumulative effect of accounting changes in 2004. This compares to 11.1 percent and 14.4 percent in 2003 and 2002, respectively.

At December 31, 2004, AIG s third-party assets under management, including both retail mutual funds and institu-

tional accounts, approximated $51 billion and the aggregate GIC reserve was $53.8 billion.

Other Operations

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, the cash distributions on the liabilities connected to trust preferred stock, as well as the income and expenses of the parent holding company and other miscellaneous income and expenses. Other income (deductions)-net amounted to $(333) million, $(1.26) billion and $(610) million in 2004, 2003 and 2002, respectively. AIG s equity in certain partially owned subsidiaries includes $96 million in catastrophe losses in 2004. The decline in 2003 was primarily the result of increases in pension and interest expenses.

Capital Resources

At December 31, 2004, AIG had total consolidated shareholders equity of $79.67 billion and total borrowings of $96.90 billion. At that date, $86.91 billion of such borrowings were either not guaranteed by AIG or were AIGFP s matched borrowings under obligations of guaranteed investment agreements (GIAs) or matched notes and bonds payable.

Borrowings

At December 31, 2004, AIG s net borrowings were $8.50 billion after reflecting amounts that were matched borrowings under AIGFP s obligations of GIAs, matched notes and bonds payable, amounts not guaranteed by AIG and liabilities connected to trust preferred stock. The following table summarizes borrowings outstanding at December 31, 2004 and 2003:

December 31, *(in millions)*	2004 (Restated)	2003 (Restated)
AIG s net borrowings	$ 8,498	$ 7,469
Liabilities connected to trust preferred stock	1,489	1,682
AIGFP		
GIAs	18,919	15,337
Matched notes and bonds payable	22,257	16,871
Borrowings not guaranteed by AIG	45,736	38,990
Total debt	$ 96,899	$ 80,349

Borrowings issued or guaranteed by AIG and those borrowings not guaranteed by AIG at December 31, 2004 and 2003 were as follows:

December 31, *(in millions)*	2004 (Restated)	2003 (Restated)
AIG borrowings:		
Medium term notes	$ 667	$ 791
Notes and bonds payable	2,980	3,141
Loans and mortgages payable	349	337
Total	3,996	4,269

Borrowings guaranteed by AIG:		
AIGFP		
GIAs	18,919	15,337
Notes and bonds payable	22,695	17,604
Total	41,614	32,941
AIG Funding, Inc. commercial paper	2,969	1,223
AGC Notes and bonds payable	1,095	1,244
Liabilities connected to trust preferred stock	1,489	1,682
Total borrowings issued or guaranteed by AIG	51,163	41,359
Borrowings not guaranteed by AIG:		
ILFC		
Commercial paper	2,670	1,575
Medium term notes	5,972	5,960
Notes and bonds payable*(a)*	15,734	14,431
Loans and mortgages payable*(b)*	40	143
Total	24,416	22,109
AGF		
Commercial paper	3,686	2,877
Medium term notes	13,709	9,704
Notes and bonds payable	1,585	1,739
Total	18,980	14,320
Commercial paper:		
AIG Credit Card Company (Taiwan)	359	250
AIG Finance (Taiwan) Limited	9	13
Total	368	263
Loans and mortgages payable:		
AIGCFG	792	624
AIG Finance (Hong Kong) Limited	49	161
Total	841	785
Other Subsidiaries	832	729

(continued)

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS *(continued)*

December 31, *(in millions)*	2004 (Restated)	2003 (Restated)
Variable Interest Entity debt:		
ILFC*(c)*		464
AIG Global Investment Group		6
AIG Global Real Estate Investment	8	
AIG Capital Partners	165	148
AIG SunAmerica	126	166
Total	299	784
Total borrowings not guaranteed by AIG	45,736	38,990
Total debt	$ 96,899	$ 80,349

(a) Includes borrowings under Export Credit Facility of $1.7 billion.
(b) Capital lease obligations.
(c) Synthetic lease obligations expired in September 2004.

For a description of the effects on AIG s capital resources, including the cost of borrowing, of recent downgrades and rating actions by the major rating agencies, see the discussion under Outlook herein and Certain Factors Affecting AIG s Business AIG s Credit Ratings in Item 1. Business as well as Note 9 of Notes to Financial Statements.

During 2004, AIG did not issue any medium term notes, and $124 million of previously issued notes matured or were redeemed. AIG completed an exchange offer in April 2004 with respect to Rule 144A/ Regulation S Notes and issued in exchange substantially identical notes that are registered under the Securities Act. On August 15, 2004, Eurodollar zero coupon notes with a face value of $189 million matured. AIG intends to continue its customary practice of issuing debt securities from time to time to meet its financing needs and those of certain of its subsidiaries for general corporate purposes, as well as to initiate a matched investment program. However AIG s ability to do so may be limited due to the delay in filing its periodic financial reports. See Certain Factors Affecting AIG s Business Access to Capital Markets in Item 1. Business.

On November 9, 2001, AIG received proceeds of approximately $1 billion from the issuance of Zero Coupon Convertible Senior Debentures Due 2031 with an aggregate principal amount at maturity of approximately $1.52 billion. Commencing January 1, 2002, the debentures are convertible into shares of AIG common stock at a conversion rate of 6.0627 shares per $1,000 principal amount of debentures if AIG common stock trades at certain levels for certain time periods. The debentures are callable by AIG on or after November 9, 2006. Also, holders can require AIG to repurchase these debentures once every five years beginning on November 9, 2006.

AIGFP uses the proceeds from the issuance of notes and bonds and GIA borrowings to invest in a diversified portfolio of securities and derivative transactions. The borrowings may also be temporarily invested in securities purchased under agreements to resell. See also the discussions under Operating Review, Liquidity and Derivatives herein and Notes 1, 8, 9 and 20 of Notes to Consolidated Financial Statements.

AIGFP has established a Euro Medium Term Note Program under which an aggregate principal amount of up to $5.0 billion of notes may be outstanding. The program provides that additional notes may be issued to replace matured or redeemed notes. As of December 31, 2004, $7.24 billion of notes had been issued under the program, $4.57 billion of which were outstanding, including $213 million resulting from foreign exchange translation into U.S. dollars. Notes issued under this program are included in Notes and Bonds Payable in the preceding table of borrowings.

AIG Funding, Inc. (AIG Funding), through the issuance of commercial paper, helps fulfill the short-term cash requirements of AIG and its subsidiaries. AIG Funding intends to continue to meet AIG s funding requirements through the issuance of commercial paper guaranteed by AIG. The issuance of AIG Funding s commercial paper is subject to the approval of AIG s Board of Directors.

AIG and AIG Funding are parties to unsecured syndicated revolving credit facilities aggregating $2.75 billion, consisting of $1.375 billion in a 364-day revolving credit facility that expires in July of 2005 and $1.375 billion in a five-year revolving credit facility that expires in July of 2007. The 364-day facility allows for the conversion by AIG of any outstanding loans at expiration into one-year term loans. The facilities can be used for general corporate purposes and also to provide backup for AIG s commercial paper programs administered by AIG Funding. AIG expects to replace or extend these credit facilities on or prior to their expiration. There were no borrowings outstanding as of December 31, 2004.

AIG obtained waivers from the lenders under these revolving credit facilities providing for the extension of the delivery date of AIG s consolidated financial statements for year-end 2004 and for the first quarter of 2005 through June 30, 2005.

AIG is also a party to an unsecured inter-company revolving credit facility provided by certain of its subsidiaries aggregating $2 billion that expires in October of 2005. The facility allows for the conversion of any outstanding loans at expiration into one-year term loans. The facility can be used for general corporate purposes and also to provide backup for AIG s commercial paper programs. AIG expects to replace or extend this credit facility on or prior to its expiration. There were no borrowings outstanding as of December 31, 2004.

As of November 2001, AIG guaranteed the notes and bonds of AGC. During 2002, AGC issued $200 million in notes which matured in March 2003. During 2004, $149 million of previously issued notes matured.

Preferred stock issued by an AGC subsidiary, American General Capital I, with a liquidation value of $200 million

was redeemed for cash on September 8, 2004. AGC redeemed the related Junior Subordinated Debentures at that time, extinguishing the liabilities connected to the trust preferred stock.

ILFC fulfills its short term cash requirements through the issuance of commercial paper. The issuance of commercial paper is subject to the approval of ILFC s Board of Directors and is not guaranteed by AIG. ILFC is a party to unsecured syndicated revolving credit facilities aggregating $6.0 billion at December 31, 2004. The facilities can be used for general corporate purposes and also to provide backup for ILFC s commercial paper program and consist of $4.0 billion in a 364-day revolving credit facility that expires in October 2005, with a one-year term out option, and $2.0 billion in a five-year revolving credit facility that expires in October 2009. ILFC expects to replace or extend these credit facilities on or prior to their expiration. There were no borrowings outstanding as of December 31, 2004.

During 2004, ILFC increased the aggregate principal amount outstanding of its medium term and long-term notes, which included $518 million resulting from foreign exchange translation into U.S. dollars as of year-end. ILFC had $13.13 billion of debt securities registered for public sale at December 31, 2004. As of December 31, 2004, $5.59 billion of debt securities were issued. In addition, ILFC has a Euro Medium Term Note Program for $7.0 billion, under which $4.48 billion in notes were sold through December 31, 2004. ILFC has substantially eliminated the currency exposure arising from foreign-currency denominated notes by either hedging the notes through swaps or through the offset provided by operating lease payments in Euros. Notes issued under this program are included in Notes and Bonds Payable in the preceding table of borrowings.

ILFC had a $4.3 billion Export Credit Facility for use in connection with the purchase of approximately 75 aircraft delivered through 2001. This facility was guaranteed by various European Export Credit Agencies. The interest rate varies from 5.75 percent to 5.90 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At December 31, 2004, ILFC had $1.5 billion outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. In May 2004, ILFC entered into a similarly structured Export Credit Facility (ECA) for up to a maximum of $2.64 billion for Airbus aircraft to be delivered in 2004 and 2005. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a six-month forward-looking calendar, and the interest rate is determined through a bid process. At December 31, 2004, ILFC had $202 million outstanding under this facility. Borrowings with respect to these facilities are included in Notes and Bonds Payable in the preceding table of borrowings.

In August 2004, ILFC received a commitment for an Ex-Im Bank comprehensive guarantee in the amount of $1.68 billion to support the financing of up to 30 new Boeing aircraft. The delivery period initially extends from September 1, 2004 through August 31, 2005, but may be extended to August 31, 2006. ILFC did not have any borrowings outstanding under this facility at December 31, 2004. During 2003, ILFC entered into various bank financings for a total funded amount of $1.3 billion. The financings mature through 2009. One tranche of one of the loans totaling $410 million was funded in Japanese yen and swapped to U.S. dollars.

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

AGF fulfills its short term cash requirements through the issuance of commercial paper. The issuance of commercial paper is subject to the approval of AGF s Board of Directors and is not guaranteed by AIG. AGF is a party to unsecured syndicated revolving credit facilities aggregating $3.25 billion, consisting of $1.75 billion in a 364-day revolving credit facility that expires in July of 2005 and $1.5 billion in a five-year revolving credit facility that expires in July of 2007. The 364-day facility allows for the conversion by AGF of any outstanding loans at expiration into one-year term loans. The facilities can be used for general corporate purposes and also to provide backup for AGF s commercial paper programs. AGF expects to replace or extend these credit facilities on or prior to their expiration. There were no borrowings outstanding as of December 31, 2004.

AGF is also party to several bilateral credit agreements aggregating $260 million at March 31, 2005. The terms and conditions of these agreements are identical to AGF s 364-day revolving credit facility.

During 2004, AGF issued $2.94 billion of fixed rate and variable rate medium term notes ranging in maturities from two to ten years. As of December 31, 2004, notes aggregating $13.71 billion were outstanding with maturity dates ranging from 2005 to 2014 at interest rates ranging from 1.38 percent to 7.50 percent. To the extent deemed appropriate, AGF may enter into swap transactions to manage its effective borrowing with respect to these notes.

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In addition, AGF issued $2.85 billion of long-term funding in 2004 from sources including Euro-denominated and Sterling-denominated transactions totaling the equivalent of $1.82 billion. Other funding sources included private placement debt, retail note issuances and bank financings.

AIG Credit Card Company (Taiwan) (AIGCCC-Taiwan) and AIG Finance (Taiwan) Limited (AIGF-Taiwan), both consumer finance subsidiaries in Taiwan, have issued commercial paper for the funding of their own operations. At December 31, 2004, AIG did not guarantee the commercial paper of any of its subsidiaries other than AIG Funding. See also the discussion under Derivatives herein and Note 9 of Notes to Consolidated Financial Statements.

Contractual Obligations and Other Commercial Commitments

The maturity schedule of AIG s contractual obligations at December 31, 2004 was as follows:

		Payments due by Period			
(in millions)	Total Payments	Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years
Borrowings*(a)*	$ 86,907	$ 24,560	$ 17,847	$ 14,728	$29,772
Loss reserves*(b)*	61,878	17,016	18,873	8,973	17,016
Insurance and investment contract liabilities*(c)*	54,630	10,317	15,557	15,054	13,702
Operating leases	2,682	543	708	505	926
Aircraft purchase commitments	21,587	5,839	10,132	5,249	367
Total	$ 227,684	$ 58,275	$ 63,117	$ 44,509	$61,783

(a) Excludes commercial paper and obligations included as debt pursuant to FIN46R and includes ILFC s capital lease obligations. See also Note 9 of Notes to Consolidated Financial Statements.

(b) Represents future loss and loss adjustment expense payments estimated based on historical loss development payment patterns.

(c) Insurance and investment contract liabilities include various investment-type products with contractually scheduled maturities including periodic payments of a term certain nature and guaranteed maturities under guaranteed investment contracts. Items excluded from the table include (i) liabilities for future policy benefits of approximately $105 billion, and (ii) policyholder contract deposits of approximately $165 billion. Amounts excluded from the table are generally comprised of policies or contracts where (i) AIG is currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship, or (iii) the occurrence of a payment due to a surrender or other non-scheduled event out of AIG s control. The determination of these liability amounts and timing of payment are not reasonably fixed and determinable. Significant uncertainties relating to these liabilities include mortality, morbidity, expenses, persistency, investment returns, inflation, and future policyholder elections as to benefits.

The maturity schedule of AIG s other commercial commitments by segment at December 31, 2004 was as follows:

		Amount of Commitment Expiration			
(in millions)	Total Amounts Committed	Less Than One Year	One Through Three Years	Four Through Five Years	After Five Years
Letters of credit:					
Life Insurance & Retirement Services	$ 185	$ 81	$ 4	$	$ 100
DBG	211	115	96		

Standby letters of credit:					
Capital Markets	1,556	2	43	35	1,476
Guarantees:					
Life Insurance & Retirement Services*(a)*	2,523	225	340		1,958
Asset Management	156	105	40	11	
Other commercial commitments*(b)*:					
Capital Markets*(c)*	16,286	484	1,933	3,023	10,846
Aircraft Finance*(d)*	853	234	361		258
Life Insurance & Retirement Services*(e)*	2,275	429	753	278	815
Asset Management	347	250	97		
DBG*(f)*	1,519				1,519
Total	$ 25,911	$ 1,925	$ 3,667	$ 3,347	$ 16,972

(a) Primarily AIG SunAmerica construction guarantees connected to affordable housing investments.

(b) Excludes commitments with respect to pension plans. The annual pension contribution for 2005 was $393 million. See also Note 15 of Notes to Consolidated Financial Statements.

(c) Primarily liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(d) Primarily in connection with options to acquire aircraft.

(e) Primarily AIG SunAmerica commitments to invest in partnerships.

(f) Primarily commitments to invest in limited partnerships.

Rating triggers have been defined by one independent rating agency to include clauses or agreements the outcome of which depends upon the level of ratings maintained by one or more rating agencies. Rating triggers generally relate to events which (i) could result in the termination or limitation of credit availability, or require accelerated repayment, (ii) could result in the termination of business contracts or (iii) could require a company to post collateral for the benefit of counterparties.

AIG believes that any of its or its subsidiaries contractual obligations that are subject to ratings triggers or financial covenants relating to ratings triggers would not have a material adverse effect on its financial condition, future operating results or liquidity.

As a result of the downgrades of AIG s long-term senior debt ratings, AIG has been required to post approximately $1.16 billion of collateral with counterparties to municipal guaranteed investment contracts and financial derivatives transactions. In the event of a further downgrade, AIG will be required to post additional collateral. It is estimated that, as of the close of business on February 28, 2006, based on AIG s outstanding municipal guaranteed investment contracts and financial derivatives transactions as of such date, a further downgrade of AIG s long-term senior debt ratings to Aa3 by Moody s or AA- by S&P would permit counterparties to call for approximately $962 million of additional collateral. Further, additional downgrades could result in requirements for substantial additional collateral, which could have a material effect on how AIG manages its liquidity. The actual amount of additional collateral that AIG would be required to post to counterparties in the event of such downgrades depends on market conditions, the market value of the outstanding affected transactions and other factors prevailing at the time of the downgrade. The requirement to post additional collateral may increase if additional counterparties begin to require credit support from AIG through collateralization agreements. Additional obligations to post collateral will increase the demand on AIG s liquidity.

Shareholders Equity

AIG s consolidated shareholders equity increased $10.44 billion during 2004. During 2004, retained earnings increased $9.08 billion, resulting from net income less dividends. Unrealized appreciation of investments, net of taxes, increased $1.26 billion and the cumulative translation adjustment loss, net of taxes, decreased $823 million. During 2004, there was a gain of $50 million, net of taxes, relating to derivative contracts designated as cash flow hedging instruments. See also the discussion under Operating Review and Liquidity herein, Notes 1(z), 8(d) and 20 of Notes to Consolidated Financial Statements and the Consolidated Statement of Comprehensive Income.

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.

Stock Purchase

During 2004, AIG purchased in the open market 16,299,300 shares of its common stock. AIG from time to time may buy shares of its common stock in the open market for general corporate purposes, including to satisfy its obligations under various employee benefit plans. At December 31, 2004, an additional 39,019,800 shares could be purchased under the then current authorization by AIG s Board of Directors. Through March 31, 2005, AIG purchased an additional 2,477,100 shares of its common stock.

Dividends from Insurance Subsidiaries

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to AIG s domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. Under the laws of many states, an insurer may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds. Largely as a result of the restrictions, approximately 89 percent of consolidated shareholders equity was restricted from immediate transfer to AIG parent at December 31, 2004. However, AIG cannot predict how recent regulatory investigations may affect the ability of its regulated subsidiaries to pay dividends. See Certain Factors Affecting AIG s Business Regulatory Investigations in Item 1. Business.

With respect to AIG s foreign insurance subsidiaries, the most significant insurance regulatory jurisdictions include Bermuda, Japan, Hong Kong, Taiwan, the United Kingdom, Thailand and Singapore.

AIG cannot predict whether the regulatory investigations currently underway or future regulatory issues will impair AIG s financial condition, results of operations or liquidity. To AIG s knowledge, no AIG company is currently on any regulatory or similar watch list with regard to solvency. See also the discussion under Liquidity herein and Note 11 of Notes to Consolidated Financial Statements, as well as Certain Factors Affecting AIG s Business in Item 1. Business.

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Regulation and Supervision

AIG s insurance subsidiaries, in common with other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. In the U.S. the National Association of Insurance Commissioners (NAIC) has developed Risk-Based Capital (RBC) requirements. RBC relates an individual insurance company s statutory surplus to the risk inherent in its overall operations. At December 31, 2004, the risk-based adjusted surplus of each of AIG s Domestic General companies and of each of AIG s Domestic Life companies exceeded each of their RBC standards. As discussed above, various regulators have commenced investigations into certain insurance business practices, including with respect to AIG. While such investigations are in their early stages, it is possible that they may result in additional regulation of the insurance industry and specific action with respect to AIG, and AIG cannot predict the ultimate effect that such additional regulation might have on its business. Federal, state or local legislation may affect AIG s ability to operate and expand its various financial services businesses, and changes in the current laws, regulations or interpretations thereof may have a material adverse effect on these businesses. See Certain Factors Affecting AIG s Business Regulatory Investigations in Item 1. Business for a further discussion of the effect these investigations may have on AIG s businesses.

AIG s U.S. operations are negatively affected 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 2004, 2003, and 2002 were $118 million, $77 million and $76 million, respectively.

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

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

Foreign operations are individually subject to local solvency margin requirements that require maintenance of adequate capitalization, which AIG complies with by country. In addition, certain foreign locations, notably Japan, have established regulations that can result in guarantee fund assessments. These have not had a material effect on AIG s results of operations.

Liquidity

AIG s liquidity is primarily derived from the operating cash flows of its General and Life Insurance & Retirement Services operations. Management believes that AIG s liquid assets, its net cash provided by operations, and access to short term funding through commercial paper and bank credit facilities will enable it to meet any anticipated cash requirements. See Certain Factors Affecting AIG s Business Access to Capital Markets in Item 1. Business.

At December 31, 2004, AIG s consolidated invested assets included $18.11 billion of cash and short-term investments. Consolidated net cash provided from operating activities in 2004 amounted to $30.72 billion.

The liquidity of the combined insurance operations is derived both domestically and abroad. The combined insurance operating cash flow is derived from two sources, underwriting operations and investment operations. Cash flow includes periodic premium collections, including policyholders contract deposits, cash flows from investment operations and paid loss recoveries less reinsurance premiums, losses, benefits, and

acquisition and operating expenses. Generally, there is a time lag from when premiums are collected and, when as a result of the occurrence of events specified in the policy, the losses and benefits are paid. Investment income cash flow is primarily derived from interest and dividends received and includes realized capital gains net of realized capital losses. See also the discussions under Operating Review General Insurance

Operations and Life Insurance & Retirement Services Operations herein.

With respect to General Insurance operations, if paid losses accelerated beyond AIG s ability to fund such paid losses from current operating cash flows, AIG might need to liquidate a portion of its General Insurance investment portfolio and/or arrange for financing. Potential events causing such a liquidity strain could be the result of several significant catastrophic events occurring in a relatively short period of time. Additional strain on liquidity could occur if the investments sold to fund such paid losses were sold into a depressed market place and/or reinsurance recoverable on such paid losses became uncollectible or collateral supporting such reinsurance recoverable significantly decreased in value. See also the discussions under Operating Review General Insurance Operations herein.

With respect to Life Insurance & Retirement Services operations, if a substantial portion of the Life Insurance & Retirement Services operations bond portfolio diminished significantly in value and/or defaulted, AIG might need to liquidate other portions of its Life Insurance & Retirement Services investment portfolio and/or arrange financing. Potential events causing such a liquidity strain could be the result of economic collapse of a nation or region in which AIG Life Insurance & Retirement Services operations exist, nationalization, terrorist acts, or other such economic or political upheaval. In addition, a significant rise in interest rates leading to a significant increase in policyholder surrenders could also create a liquidity strain. See also the discussions under Operating Review Life Insurance & Retirement Services Operations herein.

In addition to the combined insurance pretax operating cash flow, AIG s insurance operations held $7.63 billion in cash and short-term investments at December 31, 2004. Operating cash flow and the cash and short-term balances held provided AIG s insurance operations with a significant amount of liquidity.

This liquidity is available, among other things, to purchase predominately high quality and diversified fixed income securities and, to a lesser extent, marketable equity securities, and to provide mortgage loans on real estate, policy loans, and collateral loans. This cash flow coupled with proceeds of approximately $126 billion from the maturities, sales and redemptions of fixed income securities and from the sale of equity securities was used to purchase approximately $184 billion of fixed income securities and marketable equity securities during 2004.

AIG s major Financial Services operating subsidiaries consist of AIGFP, ILFC, AGF and AIGCFG. Sources of funds considered in meeting the liquidity needs of AIGFP s operations include guaranteed investment agreements, issuance of long-term and short-term debt, maturities and sales of securities available for sale, securities sold under repurchase agreements, trading liabilities, and securities and spot commodities sold but not yet purchased. ILFC, AGF and AIGCFG all utilize the commercial paper markets, bank loans and bank credit facilities as sources of liquidity. ILFC and AGF also fund in the domestic and international capital markets without reliance on any guarantee from AIG. An additional source of liquidity for ILFC is the use of export credit facilities. AIGCFG also uses wholesale and retail bank deposits as sources of funds. On occasion, AIG has provided equity capital to ILFC, AGF and AIGCFG and provides intercompany loans to AIGCFG. Cash flow provided from operations is a major source of liquidity for AIG s primary Financial Services operating subsidiaries.

AIG, the parent company, funds its short-term working capital needs through commercial paper issued by AIG Funding. As of March 31, 2005, AIG Funding had $3.485 billion of commercial paper outstanding with an average maturity of 26 days. As additional liquidity, AIG parent has a $2 billion inter-company revolving credit facility provided by certain of its subsidiaries, a $1.375 billion 364-day revolving bank credit facility that expires in July 2005 and a $1.375 billion five year revolving bank credit facility that expires in July 2007. AIG parent s primary sources of cash flow are dividends and loans from its subsidiaries. Largely as a result of regulatory restrictions, approximately 89 percent of consolidated shareholders equity was restricted from immediate transfer to AIG parent at December 31, 2004. However AIG cannot predict how recent regulatory investigations may affect the ability of its regulated subsidiaries to pay dividends. See Certain Factors Affecting AIG s Business Regulatory Investigations in Item 1. Business. AIG parent s primary uses of cash flow are for debt service and the payment of dividends to shareholders. See also Note 9 of Notes to Consolidated Financial Statements for additional information on debt maturities for AIG and its subsidiaries.

Special Purpose Vehicles and Off Balance Sheet Arrangements

AIG uses special purpose vehicles (SPVs) and off balance sheet arrangements in the ordinary course of business. As a result of recent changes in accounting, a number of SPVs and off balance sheet arrangements have been reflected in AIG s consolidated financial statements. In addition,

certain entities have been consolidated in connection with the Restatements of AIG s financial statements. See Notes 2 and 19 of Notes to Consolidated Financial Statements. In January 2003, FASB

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issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 addressed the consolidation and disclosure rules for nonoperating entities that are now defined as Variable Interest Entities (VIEs). In December 2003, FASB issued a revision to Interpretation No. 46 (FIN 46R).

AIG has restrictive guidelines with respect to the formation of and investment in SPVs and off balance sheet arrangements. In particular, AIG has expanded the responsibility of its Complex Structured Financial Transaction Committee (CSFT) to include the review of any transaction that could enable a third party to achieve an accounting or financial reporting result that is not in conformity with applicable GAAP or subject AIG to heightened legal, reputational, regulatory or other risk. See Management s Report on Internal Control Over Financial Reporting in Item 9A of Part II for a further discussion of the CSFT.

For additional information related to AIG s activities with respect to VIEs and certain guarantees see Recent Accounting Standards herein and also Notes 1 and 19 of Notes to Consolidated Financial Statements. Also, for additional disclosure regarding AIG s commercial commitments (including guarantors), see Contractual Obligations and Other Commercial Commitments herein.

Derivatives

Derivatives are financial instruments among two or more parties with returns linked to or derived from some underlying equity, debt, commodity or other asset, liability, or index. Derivatives payments may be based on interest rates and exchange rates and/or prices of certain securities, certain commodities, financial or commodity indices, or other variables. The more significant types of derivative arrangements in which AIG transacts are swaps, forwards, futures and options. In the normal course of business, with the agreement of the original counterparty, these contracts may be terminated early or assigned to another counterparty.

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

A counterparty may default on any obligation to AIG, including a derivative contract. Credit risk is a consequence of extending credit and/or carrying trading and investment positions. Credit risk exists for a derivative contract when that contract has a positive fair value to AIG. To help manage this risk, AIGFP s credit department operates within the guidelines set by the AIG Credit Risk Committee. This committee establishes the credit policy, delegates limits to AIGFP s credit department for counterparties based upon AIG s evaluation of the financial condition of the counterparty as reflected in its internal risk rating and provides limits for derivative transactions with counterparties having different credit ratings. In addition to credit ratings, this committee takes into account other factors, including the industry and country of the counterparty. Exposures and transactions which exceed these limits or 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 appropriate. In addition, AIGFP utilizes various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, and margin agreements to reduce the credit risk relating to its outstanding derivative financial transactions. AIGFP requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and the transaction s size and maturity.

AIG s Derivatives Review Committee provides an independent review of any proposed derivative transaction or program except those derivative transactions entered into by AIGFP with third parties. The committee examines, among other things, the nature and purpose of the derivative transaction, its potential credit exposure, if any, and the estimated benefits.

Generally, AIG conducts 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.

FAS 133 requires that third-party derivatives used for hedging must be specifically matched with the underlying exposures to an outside third party and documented contemporaneously to qualify for hedge accounting treatment. In many cases AIG did not meet these hedging

requirements with respect to certain hedging transactions.

AIG has historically reported the changes in the fair value of certain derivatives used for hedging activities through other comprehensive income in consolidated shareholders equity or

in net income with a corresponding adjustment to the hedged item, depending on the nature of the hedge relationship. In order to comply with FAS 133, the restated consolidated financial statements include the changes in fair value for certain derivatives, previously recorded through other comprehensive income, in current period income and reverse the previous adjustments on assets and liabilities recorded in net income in connection with hedge accounting. Because these derivatives did not qualify for hedge accounting, Statement of Financial Accounting Standards No. 115 Accounting for Certain Investments in Debt and Equity Securities requires AIG to recognize the corresponding changes in fair value, including foreign exchange gains and losses resulting from exchange rate fluctuations relating to available for sale investments through other comprehensive income. The adjustments in the Restatements with respect to FAS 133 do not result in any changes in AIG s liquidity or its overall financial condition even though inter-period volatility of earnings increased.

See also Notes 2 and 20 of Notes to Consolidated Financial Statements for detailed information relating to AIG s derivative activities, and Note 1(z) of Notes to Consolidated Financial Statements for AIG s derivative accounting policies.

Managing Market Risk

Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest rates, foreign currencies, equities and commodity prices. AIG has exposures to these risks.

AIG analyzes market risk using various statistical techniques including Value at Risk (VaR). VaR is a summary statistical measure that applies the estimated volatility and correlation of market factors to AIG s market positions. The output from the VaR calculation is the maximum loss that could occur over a defined period of time given a certain probability. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. AIG believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

Insurance

AIG has performed a separate VaR analysis for the General Insurance and Life Insurance & Retirement Services segments and for each market risk within each segment. For purposes of the VaR calculation, the insurance assets and liabilities from GICs are included in the Life Insurance & Retirement Services segment. For the calculations in the analyses the financial instrument assets included are the insurance segments invested assets, excluding real estate and investment income due and accrued, and the financial instrument liabilities included are reserve for losses and loss expenses, reserve for unearned premiums, future policy benefits for life and accident and health insurance contracts and other policyholders funds.

AIG calculated the VaR with respect to the net fair value of each of AIG s insurance segments as of December 31, 2004 and December 31, 2003. The VaR number represents the maximum potential loss that could be incurred with a 95 percent confidence (i.e., only five percent of historical scenarios show losses greater than the VaR figure) within a one-month holding period. AIG uses the historical simulation methodology that entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. AIG uses the most recent three years of historical market information for interest rates, foreign exchange rates, and equity index prices. For each scenario, each transaction was repriced. Portfolio, business unit, and finally AIG-wide scenario values are then calculated by netting the values of all the underlying assets and liabilities.

The following table presents the VaR on a combined basis and of each component of market risk for each of AIG s insurance segments as of December 31, 2004 and December 31, 2003. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

	General Insurance		Life Insurance & Retirement Services	
(in millions)	2004	2003	2004	2003

Market risk:				
Combined	$ 1,396	$ 1,100	$ 5,024	$ 3,075
Interest rate	1,563	1,173	4,750	2,967
Currency	139	125	478	257
Equity	727	797	1,024	758

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The following table presents the average, high and low VaRs on a combined basis and of each component of market risk for each of AIG s insurance segments as of December 31, 2004 and December 31, 2003. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

	2004			2003		
(in millions)	Average	High	Low	Average	High	Low
General Insurance:						
Market risk:						
Combined	$ 1,299	$ 1,497	$ 1,100	$ 888	$ 1,120	$ 658
Interest rate	1,407	1,591	1,173	732	1,173	411
Currency	111	139	88	94	147	64
Equity	744	797	688	781	935	631
Life Insurance & Retirement Services:						
Market risk:						
Combined	$ 4,021	$ 5,024	$ 3,075	$ 2,262	$ 3,419	$ 1,299
Interest rate	3,831	4,750	2,967	2,207	3,347	1,376
Currency	326	478	257	204	257	166
Equity	884	1,024	758	762	975	627

The notable increase in the Combined and Interest rate VaRs from 2003 to 2004 in the General Insurance and Life Insurance & Retirement Services segments was predominantly caused by strong growth in the businesses.

Financial Services

AIG generally manages its market exposures within Financial Services by maintaining offsetting positions. Capital Markets seeks to minimize or set limits for open or uncovered market positions. Credit exposure is managed separately. See the discussion on the management of credit risk above.

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

ILFC is exposed to market risk and the risk of loss of fair value and possible liquidity strain resulting from adverse fluctuations in interest rates. As of December 31, 2004 and December 31, 2003, AIG statistically measured the loss of fair value through the application of a VaR model. In this analysis, the net fair value of Aircraft Finance operations was determined using the financial instrument assets which included the tax adjusted future flight equipment lease revenue, and the financial instrument liabilities which included the future servicing of the current debt. The estimated effect of the current derivative positions was also taken into account.

AIG calculated the VaR with respect to the net fair value of Aircraft Finance operations using the historical simulation methodology, as previously described. As of December 31, 2004 and December 31, 2003, the average VaR with respect to the net fair value of Aircraft Finance operations was approximately $70 million and $38 million, respectively.

Capital Markets operations are exposed to market risk due to changes in the level and volatility of interest rates, foreign currency exchange rates, equity prices and commodity prices. AIGFP hedges its exposure to these risks primarily through swaps, options, forwards, and futures. To economically hedge interest rate risks, AIGFP may also purchase U.S. and foreign government obligations.

AIGFP does not seek to manage the market risk of each transaction through an individual third party offsetting transaction. Rather, AIGFP takes a portfolio approach to the management of its market risk exposures. AIGFP values the predominant portion of its market-sensitive transactions by marking them to market currently through income. A smaller portion is priced by estimated fair value based upon a conservative extrapolation of market factors. There is another limited portion of transactions where changes in fair value are not recorded through income currently and gains or losses are accrued over the life of the transactions. These valuations represent an assessment of the present values of expected future cash flows and may include reserves for such risks as are deemed appropriate by AIGFP and AIG management.

AIGFP manages market risk with a variety of transactions, including swaps, trading securities, futures and forward contracts, and other transactions as appropriate. The recorded values of these transactions may be different from the values that might be realized if AIGFP were required to sell or close out the transactions prior to maturity. AIG believes that such differences are not significant to the results of operations,

financial condition or liquidity. Such differences would be immediately recognized when the transactions are sold or closed out prior to maturity.

AIGFP attempts to secure reliable and independent current market prices, such as published exchange prices, external subscription services such as from Bloomberg or Reuters or third-party broker quotes for use in this model. When such prices are not available, AIGFP uses an internal methodology which includes extrapolation from observable and verifiable prices nearest to the dates of the transactions. Historically, actual results have not materially deviated from these models.

Systems used by Capital Markets operations can monitor each unit s respective market positions on an intraday basis. AIGFP operates in major business centers overseas and therefore is open for business essentially 24 hours a day. Thus, the market exposure and offset strategies are monitored, reviewed and coordinated around the clock.

AIGFP applies various testing techniques which reflect significant potential market movements in interest rates, foreign exchange rates, commodity and equity prices, volatility levels, and the effect of time. These techniques vary by currency and are regularly changed to reflect factors affecting the derivatives portfolio. The results from these analyses are regularly reviewed by AIG management.

As described above, Capital Markets operations are exposed to the risk of loss of fair value from adverse fluctuations in interest rate and foreign currency exchange rates and equity and commodity prices as well as implied volatilities thereon. AIG statistically measures the losses of fair value through the application of a VaR model across Capital Markets.

Capital Markets asset and liability portfolios for which the VaR analyses were performed included over the counter and exchange traded investments, derivative instruments and commodities. Because the market risk with respect to securities available for sale, at market, is substantially hedged, segregation of market sensitive instruments into trading and other than trading was not deemed necessary. The VaR calculation is unaffected by the accounting treatment of hedged transactions under FAS 133.

In the calculation of VaR for Capital Markets operations, AIG uses the same historical simulation methodology, described under Insurance above, which entails repricing all assets and liabilities under explicit changes in market rates within a specific historical time period. AIGFP has recently enhanced its library of factors by including implied option volatilities to construct the historical scenarios for simulation.

The following table presents the VaR on a combined basis and of each component of risk for Capital Markets operations as of December 31, 2004 and 2003. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

(in millions)	2004	2003*
Combined	$ 17	$ 13
Interest rate	11	8
Currency	4	4
Equity	16	5
Commodity	7	4

* *Adjusted to conform to 2004 methodology.*

The following table presents the average, high, and low VaRs on a combined basis and of each component of risk for Capital Markets operations as of December 31, 2004 and 2003. Due to diversification effects, the combined VaR is always smaller than the sum of its components.

	2004			2003*		
(in millions)	Average	High	Low	Average	High	Low

Combined	$ 19	$ 24	$ 13	$ 17	$ 19	$ 13
Interest rate	9	12	5	9	11	8
Currency	4	4	3	7	10	4
Equity	13	16	5	11	16	5
Commodity	6	7	4	6	11	4

* *Adjusted to conform to 2004 methodology.*

Recent Accounting Standards

In December 2003, FASB issued a revision to Interpretation No. 46 (FIN46R). See also Note 19 of Notes to Consolidated Financial Statements.

In July 2003, the American Institute of Certified Public Accountants issued SOP 03-1. See also Note 21 of Notes to Consolidated Financial Statements.

At the March 2004 meeting, the Emerging Issue Task Force (EITF) reached a consensus with respect to Issue No. 03-1, The Meaning of Other-Than Temporary Impairment and Its Application to Certain Investments. On September 30, 2004, the FASB issued FASB Staff Position (FSP) EITF Issue 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.

At the September 2004 meeting, the EITF reached a consensus with respect to Issue No. 04-8, Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share.

In December 2004, the FASB issued Statement No. 123 (revised 2004) (FAS 123R), Share Based Payment.

In March 2005, FASB issued FSP FIN46R-5, Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities.

For further discussion of these recent accounting standards and their application to AIG, see Note 1(bb) of Notes to Consolidated Financial Statements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 8. Financial Statements and Supplementary Data

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
American International Group, Inc.:

We have completed an integrated audit of American International Group, Inc. s 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and

financial statement schedules

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of American International Group, Inc. and its subsidiaries (AIG) at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America (GAAP). In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of AIG s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the consolidated financial statements, AIG restated its 2004, 2003 and 2002 consolidated financial statements and financial statement schedules.

As described in Note 21 to the consolidated financial statements, AIG changed its accounting for certain non-traditional long duration contracts and for separate accounts as of January 1, 2004.

Internal control over financial reporting

Also, we have audited management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that AIG did not maintain effective internal control over financial reporting as of December 31, 2004 because of the effect of the material weaknesses relating to the (1) control environment, (2) controls over the evaluation of risk transfer, (3) controls over certain balance sheet reconciliations, (4) controls over the accounting for certain derivative transactions and (5) controls over income tax accounting, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AIG s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of AIG s internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of

management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2004, the following material weaknesses have been identified and included in management s assessment.

Control environment: Certain of AIG s controls within its control environment were not effective to prevent certain members of senior management, including the former Chief Executive Officer and former Chief Financial Officer, from having the ability, which in certain instances was utilized, to override certain controls and effect certain transactions and accounting entries. In certain of these instances, such transactions and accounting entries appear to have been largely motivated to achieve desired accounting results and were not properly accounted for in accordance with GAAP. Further, in certain of these instances, information critical to an effective review of transactions, accounting entries, and certain entities used in these transactions and accounting entries, were not disclosed to the appropriate financial and accounting personnel, regulators and us. As a result, discussion and thorough legal, accounting, actuarial or other professional analysis did not occur. This control deficiency is based primarily on these overrides. Specifically, this control deficiency permitted the following:

Creation of Capco, a special purpose entity used to effect transactions that were recorded to convert, improperly, underwriting losses to investment losses and that were not correctly accounted for in accordance with GAAP, resulting in a misstatement of premiums and other considerations, realized capital gains (losses), incurred policy losses and benefits and related balance sheet accounts.

Incorrect recording under GAAP of reinsurance transactions that did not involve sufficient risk transfer, such as the Gen Re transaction, and in some cases also related to entities which should have been consolidated, such as Union Excess and Richmond. This incorrect recording under GAAP resulted in a misstatement of premiums and other considerations, incurred policy losses and benefits, net investment income, reinsurance assets, deferred policy acquisition costs, other assets, reserve for losses and loss expenses, reserve for unearned premiums, other liabilities and retained earnings. See below for a related discussion under *Controls over the evaluation of risk transfer.*

Various transactions, such as Covered Calls and certain Top Level Adjustments, converted realized and unrealized gains into investment income, thereby incorrectly applying GAAP, resulting in a misstatement of net investment income, realized capital gains (losses), and accumulated other comprehensive income.

Incorrect recording under GAAP of changes to loss reserves and changes to loss reserves through Top Level Adjustments without adequate support, resulting in a misstatement of incurred policy losses and benefits, reserves for losses and loss expenses, foreign currency translation adjustments and retained earnings.

Controls over the evaluation of risk transfer: AIG did not maintain effective controls over the proper evaluation, documentation and disclosure of whether certain insurance and reinsurance transactions involved sufficient risk transfer to qualify for insurance and reinsurance accounting. These transactions included Gen Re, Union Excess, Richmond and certain transactions involving AIG Re, AIG Risk Finance and AIG Risk Management. As a result, AIG did not properly account for these transactions under GAAP, resulting in a misstatement of premiums and other considerations, incurred policy losses and benefits, net investment income, reinsurance assets, deferred policy acquisition costs, other assets, reserve for losses and loss expenses, reserve for unearned premiums, other liabilities and retained earnings.

Controls over certain balance sheet reconciliations: AIG did not maintain effective controls to ensure the accuracy of certain balance sheet accounts in certain key segments of AIG s operations, principally in the Domestic Brokerage Group. Specifically, accounting personnel did not perform timely reconciliations and did not properly resolve reconciling items for premium receivables, reinsurance recoverables and intercompany accounts. As a result, insurance acquisition and other operating expenses, premiums and insurance balances receivable, reinsurance assets, other assets and retained earnings were misstated under GAAP.

Controls over the accounting for certain derivative transactions: AIG did not maintain effective controls over the evaluation and documentation of whether certain derivative transactions qualified under GAAP for hedge accounting, resulting in a misstatement of net investment income, realized capital gains (losses), other revenues, accumulated other comprehensive income (loss) and related balance sheet accounts.

Controls over income tax accounting: AIG did not maintain effective controls over the determination and reporting of

certain components of the provision for income taxes and related deferred income tax balances. Specifically, AIG did not maintain effective controls to review and monitor the accuracy of the components of the income tax provision calculations and related deferred income taxes and to monitor the differences between the income tax basis and the financial reporting basis of assets and liabilities to effectively reconcile the differences to the deferred income tax balances. As a result, deferred income taxes payable, retained earnings and accumulated other comprehensive income were misstated under GAAP.

The control deficiencies described above resulted in the restatement of AIG s 2003, 2002, 2001 and 2000 annual consolidated financial statements and 2004 and 2003 interim consolidated financial statements, as well as adjustments, including audit adjustments, relating to the derivative matter described above, to AIG s 2004 annual consolidated financial statements. Also, the control deficiencies above related to the accounting for certain derivative transactions, income tax accounting and certain balance sheet reconciliations resulted in the further restatement to AIG s 2004, 2003 and 2002 annual consolidated financial statements and quarterly financial information for 2004 and 2003, as well as for the first three quarters of 2005. Furthermore, these control deficiencies could result in other misstatements in the aforementioned financial statement accounts and disclosures that would result in a material misstatement to the annual or interim AIG consolidated financial statements that would not be prevented or detected. Accordingly, management has concluded that these control deficiencies constitute material weaknesses. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and our opinion regarding the effectiveness of AIG s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management s assessment that AIG did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, AIG has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

AIG s management and we previously concluded that AIG did not maintain effective internal control over financial reporting as of December 31, 2004 because of the material weaknesses described above. However, AIG s management subsequently determined that the Second Restatement described in Note 2 to the consolidated financial statements was an additional effect of the material weaknesses related to certain derivative transactions, income tax accounting and certain balance sheet reconciliations described above. Accordingly, the Second Restatement did not affect management s assessment or our opinion on internal control over financial reporting.

PricewaterhouseCoopers LLP
New York, New York
May 27, 2005, except for the effects of the
Second Restatement discussed in Note 2,
the updates after May 27, 2005 discussed
in Notes 7 and 12 to the consolidated
financial statements, and except for the
matter in the penultimate paragraph of
Management s Report on Internal Control
Over Financial Reporting, as to which the
date is March 16, 2006

CONSOLIDATED BALANCE SHEET

December 31, *(in millions)*	2004 (Restated)	2003 (Restated)
Assets:		
Investments, financial services assets and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2004 $329,838; 2003 $287,810)	$ 344,399	$ 300,935
Bonds held to maturity, at amortized cost (market value: 2004 $18,791; 2003 $8,173)	18,294	8,037
Bond trading securities, at market value (cost: 2004 $2,973; 2003 $252)	2,984	282
Equity securities:		
Common stocks, at market value (cost: 2004 $8,424; 2003 $6,614)	9,772	7,377
Common stocks trading, at market value (cost: 2004 $5,651; 2003 $125)	5,894	156
Preferred stocks, at market value (cost: 2004 $2,017; 2003 $1,743)	2,040	1,906
Mortgage loans on real estate, net of allowance (2004 $65; 2003 $68)	13,146	12,328
Policy loans	7,035	6,658
Collateral and guaranteed loans, net of allowance (2004 $18; 2003 $15)	3,303	3,926
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2004 $6,390; 2003 $5,458)	32,130	29,870
Securities available for sale, at market value (cost: 2004 $29,171; 2003 $23,131)	31,225	24,938
Trading securities, at market value	2,746	3,538
Spot commodities	534	245
Unrealized gain on swaps, options and forward transactions	22,670	21,459
Trading assets	3,433	2,500
Securities purchased under agreements to resell, at contract value	26,272	20,845
Finance receivables, net of allowance (2004 $571; 2003 $562)	23,574	17,500
Securities lending collateral, at cost (approximates market value)	49,169	29,392
Other invested assets	23,559	18,418
Short-term investments, at cost (approximates market value)	16,102	8,908
Cash	2,009	922
Total investments, financial services assets and cash	640,290	520,140
Investment income due and accrued	5,556	4,593
Premiums and insurance balances receivable, net of allowance (2004 $690; 2003 $568)	15,622	13,829
Reinsurance assets	19,613	20,645
Deferred policy acquisition costs	29,817	25,994
Investments in partially owned companies	1,495	1,457
Real estate and other fixed assets, net of accumulated depreciation (2004 $4,650; 2003 $4,282)	6,192	5,966
Separate and variable accounts	57,741	60,536
Goodwill	8,556	7,619
Income taxes receivable current	138	
Other assets	16,125	14,823
Total assets	$ 801,145	$ 675,602

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET *(continued)*

December 31, *(in millions, except share data)*	2004 **(Restated)**	2003 (Restated)
Liabilities:		
Reserve for losses and loss expenses	$ 61,878	$ 51,871
Reserve for unearned premiums	23,400	21,235
Future policy benefits for life and accident and health insurance contracts	104,740	92,915
Policyholders contract deposits	216,474	171,828
Other policyholders funds	10,280	9,124
Reserve for commissions, expenses and taxes	4,629	4,645
Insurance balances payable	3,661	2,887
Funds held by companies under reinsurance treaties	3,404	3,043
Income taxes payable:		
Current		281
Deferred	6,588	4,237
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	18,919	15,337
Securities sold under agreements to repurchase, at contract value	23,581	17,893
Trading liabilities	2,503	6,353
Securities and spot commodities sold but not yet purchased, at market value	5,404	5,673
Unrealized loss on swaps, options and forward transactions	15,985	13,240
Trust deposits and deposits due to banks and other depositors	4,248	3,627
Commercial paper	6,724	4,715
Notes, bonds, loans and mortgages payable	61,296	51,525
Commercial paper	2,969	1,223
Notes, bonds, loans and mortgages payable	5,502	5,867
Liabilities connected to trust preferred stock	1,489	1,682
Separate and variable accounts	57,741	60,536
Minority interest	4,831	3,547
Securities lending payable	49,972	30,195
Other liabilities	25,055	22,701
Total liabilities	721,273	606,180
Preferred shareholders equity in subsidiary companies	199	192
Commitments and Contingent Liabilities (See Note 12)		
Shareholders equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2004 2,751,327,476; 2003 2,751,327,476	6,878	6,878
Additional paid-in capital	2,094	2,028
Retained earnings	63,468	54,384
Accumulated other comprehensive income	9,444	7,337
Treasury stock, at cost; 2004 154,904,286; 2003 142,880,430 shares of common stock (including 119,263,196 and 119,250,750 shares, respectively, held by subsidiaries)	(2,211)	(1,397)
Total shareholders equity	79,673	69,230
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	$ 801,145	$ 675,602

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

Years Ended December 31, *(in millions, except per share data)*	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Revenues:			
Premiums and other considerations	$ 66,625	$ 54,802	$ 44,289
Net investment income	18,465	15,508	13,593
Realized capital gains (losses)	44	(442)	(1,653)
Other revenues	12,532	9,553	9,942
Total revenues	97,666	79,421	66,171
Benefits and expenses:			
Incurred policy losses and benefits	58,360	46,034	40,005
Insurance acquisition and other operating expenses	24,461	21,480	18,358
Total benefits and expenses	82,821	67,514	58,363
Income before income taxes, minority interest and cumulative effect of accounting changes	14,845	11,907	7,808
Income taxes:			
Current	2,593	2,741	1,808
Deferred	1,814	815	111
	4,407	3,556	1,919
Income before minority interest and cumulative effect of accounting changes	10,438	8,351	5,889
Minority interest	(455)	(252)	(160)
Income before cumulative effect of accounting changes	9,983	8,099	5,729
Cumulative effect of accounting changes, net of tax	(144)	9	
Net income	$ 9,839	$ 8,108	$ 5,729
Earnings per common share:			
Basic			
Income before cumulative effect of accounting changes	$ 3.83	$ 3.10	$ 2.20
Cumulative effect of accounting changes, net of tax	(0.06)		
Net income	3.77	3.10	2.20
Diluted			
Income before cumulative effect of accounting changes	$ 3.79	$ 3.07	$ 2.17
Cumulative effect of accounting changes, net of tax	(0.06)		
Net income	3.73	3.07	2.17

Average shares outstanding:			
Basic	2,606	2,610	2,612
Diluted	2,637	2,637	2,643

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

Years Ended December 31, *(in millions, except per share data)*	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Common stock:			
Balance at beginning of year	$ 6,878	$ 6,878	$ 6,876
Issued under stock plans			2
Balance at end of year	6,878	6,878	6,878
Additional paid-in capital:			
Balance at beginning of year	2,028	1,783	2,004
Excess of cost over proceeds of common stock issued under stock plans	(105)	(76)	(94)
Adjustment in connection with AGC acquisition			5
Other	171	321	(132)
Balance at end of year	2,094	2,028	1,783
Retained earnings:			
Balance at beginning of year	54,384	46,908	41,659
Net income	9,839	8,108	5,729
Dividends to common shareholders ($.29, $.24 and $.18 per share, respectively)	(755)	(632)	(480)
Balance at end of year	63,468	54,384	46,908
Accumulated other comprehensive income (loss):			
Balance at beginning of year	7,337	4,077	231
Unrealized appreciation of investments net of reclassification adjustments	1,868	4,159	5,938
Deferred income tax expense on changes	(612)	(1,237)	(1,879)
Foreign currency translation adjustments	993	347	(75)
Applicable income tax (expense) benefit on above changes	(170)	4	(51)
Net derivative gains (losses) arising from cash flow hedging activities	83	75	(104)
Deferred income tax (expense) benefit on above changes	(33)	(22)	58
Retirement plan liabilities adjustment, net of tax	(22)	(66)	(41)
Other comprehensive income	2,107	3,260	3,846
Balance at end of year	9,444	7,337	4,077
Treasury stock, at cost:			
Balance at beginning of year	(1,397)	(1,343)	(888)
Cost of shares acquired during year	(1,083)	(207)	(734)
Issued under stock plans	263	151	260
Other	6	2	19
Balance at end of year	(2,211)	(1,397)	(1,343)
Total shareholders equity at end of year	$ 79,673	$ 69,230	$ 58,303

See Accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended December 31, *(in millions)*	2004 **(Restated)**	2003 (Restated)	2002 (Restated)
Summary:			
Net cash provided by operating activities	$ 30,716	$ 33,241	$ 20,185
Net cash used in investing activities	(97,115)	(66,904)	(61,744)
Net cash provided by financing activities	66,494	33,070	42,092
Change in cumulative translation adjustments	992	350	(66)
Change in cash	1,087	(243)	467
Cash at beginning of year	922	1,165	698
Cash at end of year	$ 2,009	$ 922	$ 1,165
Cash flows from operating activities:			
Net income	$ 9,839	$ 8,108	$ 5,729
Adjustments to reconcile net income to net cash provided by operating activities:			
Noncash revenues, expenses, gains and losses included in income:			
Change in:			
General and life insurance reserves	26,937	22,456	15,625
Premiums and insurance balances receivable and payable net	(1,020)	(2,236)	(1,495)
Reinsurance assets	1,032	2,137	(2,197)
Deferred policy acquisition costs	(4,042)	(3,778)	(3,763)
Investment income due and accrued	(916)	(388)	(476)
Funds held under reinsurance treaties	361	832	629
Other policyholders funds	1,156	687	9
Current and deferred income taxes net	1,396	2,179	496
Reserve for commissions, expenses and taxes	(16)	1,005	62
Other assets and liabilities net			