AMERICAN INTERNATIONAL GROUP INC
Form 10-Q/A
August 09, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
(Amendment No. 1)

(Mark One)

þ **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 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 **(State or other jurisdiction of incorporation or organization)**	**13-2592361** **(I.R.S. Employer Identification No.)**
70 Pine Street, New York, New York **(Address of principal executive offices)**	**10270** **(Zip Code)**

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

Former name, former address and former fiscal year, if changed since last report: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ü No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ü No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of June 30, 2004: 2,605,397,546.

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Explanatory Note

This Form 10-Q/A for the quarterly period ended June 30, 2004 is being filed for the purpose of amending Items 1, 2, 3 and 4 of Part I and Item 6 of Part II of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004 of American International Group, Inc. (AIG) to reflect the restatement of AIG s financial results described herein for the quarterly and six month periods ended June 30, 2004 and 2003. All other Items of the original filing on Form 10-Q for the quarterly period ended June 30, 2004, made on August 9, 2004, are unaffected by the changes described above and such items have not been included in this Amendment.

Information in this Form 10-Q/A is generally stated as of June 30, 2004 and generally does not reflect any subsequent information or events other than the restatement and the fourth quarter 2004 changes in estimates, except that in certain cases forward looking statements have been revised to reflect events and developments subsequent to June 30, 2004. Current information with respect to AIG is contained in its Form 10-K for the year ended December 31, 2004 (2004 Form 10-K) and other filings with the Securities and Exchange Commission (SEC) with respect to subsequent periods including the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (June 30, 2005 Form 10-Q).

Restatement of Previously Issued Financial Statements

Subpoenas. In February 2005, AIG received subpoenas from the Office of the Attorney General for the State of New York (NYAG) and the 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 in AIG s 2004 Form 10-K.

Internal Review. In connection with the preparation of AIG s consolidated financial statements included in AIG s 2004 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. 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 the present. 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 accounting for certain transactions and certain relationships needed to be restated or adjusted.

Restatement. AIG has 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. See Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 of Notes to Financial Statements in the 2004 Form 10-K and Note 2 of Notes to Financial Statements included herein for a discussion of the restatement and 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 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 restatement includes adjustments, some of which had been previously identified but considered not to be sufficiently material to require correction.

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Fourth Quarter 2004 Changes in Estimates

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. Most significant of the changes in estimates was a pre-tax charge of $850 million representing an increase in reserve for asbestos and environmental losses and loss expenses. See Fourth Quarter 2004 Changes in Estimates and Note 1(cc) of Notes to Financial Statements in AIG s 2004 Form 10-K.

Recent Developments

AIG s Credit Ratings

The recent 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 ratings outlook to negative. Moody s Investors Service (Moody s) lowered AIG s long-term senior debt rating from Aaa to Aa2 . Fitch Ratings (Fitch) downgraded the long-term senior debt ratings of AIG from AAA to AA and placed the ratings on Ratings 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. (AGF) on Rating Watch Negative. S&P and Moody s affirmed the long-term and short-term senior debt ratings of American General Financial Corporation at the 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 will increase 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 the ability of AIG Financial Products Corp. (AIGFP) 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. The recent regulatory inquiries, internal investigations, and delay in the filing of AIG s 2004 Form 10-K, as well as negative publicity, had caused independent producers and distributors of AIG s domestic life and retirement services products to be more cautious in placing business with AIG subsidiaries. AIG is unable to predict the effect of these issues on AIG s business, including any increase in associated surrender or replacement activity.

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 agreements and financial derivatives transactions. In the event of a further

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downgrade, AIG will be required to post additional collateral. It is estimated that, as of the close of business on July 15, 2005, 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 $1.98 billion 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.

Regulatory Investigations

AIG s ability to engage in certain businesses may be impaired by the regulatory investigations. The regulatory investigations and civil actions pending against AIG may reduce the willingness of counterparties to engage in business with AIG. Uncertainty concerning the ultimate outcome of these actions and proceedings may also make AIG products and services less attractive in the marketplace. Further, these matters may affect the manner in which certain AIG subsidiaries conduct business and AIG s ability to obtain regulatory approvals for new lines of business or for further acquisitions.

Significant legal proceedings could adversely affect AIG s results of operations. AIG is party to numerous legal and regulatory proceedings, including matters relating to insurance brokerage practices and non-traditional insurance products.

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 in respect of structured transactions, transactions involving insurance brokers, non-traditional insurance products, workers compensation lines and other matters. These investigations are being conducted by a large number of regulators and governmental authorities, 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 legal proceedings. Gathering, reviewing and supplying such large amounts of information and documents to so many regulatory authorities imposes significant demands upon management and may involve significant expense.

See also Item 3. Legal Proceedings in AIG s 2004 Form 10-K, Item 1 Legal Proceedings of Part II of AIG s June 30, 2005 Form 10-Q and Note 7 of the Notes to Financial Statements included herein.

The Relationships Between AIG and Starr and SICO

The relationships between AIG and The Starr Foundation, C.V. Starr & Co., Inc. (Starr) and Starr International Company, Inc. (SICO) may take an extended period of time to unwind and/or resolve. Although AIG is currently working on unwinding and resolving its relationships with Starr and SICO, AIG cannot predict what its future relationship with Starr and SICO will be.

AIG will need to provide compensation programs that recognize the plans and programs previously provided to AIG executives by Starr and SICO.

Certain Material Weaknesses

Management has identified a number of material weaknesses in AIG s internal control over financial reporting. A discussion of these material weaknesses can be found in Item 9A of Part II of AIG s 2004 Form 10-K. Although remediation of these weaknesses has begun, the process is not yet complete. Delay in the implementation of remedial actions could affect the accuracy or timing of future filings with the SEC and other regulatory authorities.

Access to Capital Markets

AIG does not expect to be able to access the U.S. public capital markets in the near future. Although AIG is able to access the Rule 144A and Euromarkets, 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 or post-effective amendments to its existing registration statements under the Securities Act of 1933. Depending upon the SEC s review of these filings, this process may take several months or more.

PNC Settlement

In November 2004, AIG and AIGFP reached a final settlement with the Securities and Exchange Commission (SEC), the Fraud Section of the United States Department of Justice (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 a civil complaint against AIG, 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

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laws. The SEC s complaint was based on the conduct of AIG, primarily through AIGFP (i) in developing, marketing and entering into three transactions during 2001 that were intended to enable PNC, a public company, to remove certain assets from its balance sheet and (ii) in marketing similar transaction structures to other potential counterparties. The complaint alleged, inter alia, that AIGFP recklessly misrepresented, and was reckless in not knowing, that the transactions entered into with PNC and marketed to other potential counterparties did not satisfy the requirements of GAAP for non-consolidation of special purpose entities.

AIG, without admitting or denying the allegations in the SEC complaint, consented to the issuance of a final judgment: (a) permanently enjoining it and its employees and related persons from violating section 10(b) of the Securities Exchange Act of 1934 (Exchange Act), Exchange Act Rule 10b-5, and section 17(a) of the Securities Act of 1933 (Securities Act) and from aiding and abetting violations of sections 13(a) and 13(b)(2)(A) of the Exchange Act and Exchange Act Rules 12b-20, 13a-1, and 13a-13; (b) ordering it to disgorge the $39,821,000 in fees that it received from the PNC transactions, plus prejudgment interest of $6,545,000; and (c) 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 a criminal complaint against AIGFP PAGIC Equity Holding Corp. (AIGFP PAGIC), a wholly-owned subsidiary of AIGFP. The complaint alleged 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 complaint alleges that AIGFP PAGIC knew, or was deliberately ignorant in not knowing, that the PNC transaction did not satisfy the requirements of GAAP for non-consolidation of special purpose entities. The AIGFP PAGIC transaction was the last of three similar transactions developed, marketed and entered into by AIGFP and its subsidiaries with PNC during 2001. The DOJ had notified AIGFP that, in its view, AIGFP acting through certain of its employees may have violated federal criminal law in connection with the PNC transactions and the marketing of similar transaction structures to other potential counterparties.

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 and, provided that AIG, AIGFP and AIGFP PAGIC satisfy their obligations under the DOJ agreements, the DOJ will seek a dismissal with prejudice of the AIGFP PAGIC complaint after 13 months (by December 30, 2005) and will not prosecute AIG or AIGFP in connection with the PNC transactions or the Brightpoint transaction that was settled by AIG with the SEC in 2003. 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.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET

(in millions) (unaudited)

	June 30, 2004 (Restated)	December 31, 2003 (Restated)
Assets:		
Investments, financial services assets and cash:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2004 $308,428; 2003 $287,810)	**$ 314,926**	$ 300,935
Bonds held to maturity, at amortized cost (market value: 2004 $12,686; 2003 $8,173)	**12,877**	8,037
Bond trading securities, at market value (cost: 2004 $1,813; 2003 $252)	**1,793**	282
Equity securities:		
Common stocks available for sale, at market value (cost: 2004 $6,932; 2003 $6,759)	**7,786**	7,522
Common stocks trading, at market value (cost: 2004 $4,687; 2003 - $125)	**4,780**	156
Preferred stocks, at market value (cost: 2004 $1,760; 2003 $1,743)	**1,813**	1,906
Mortgage loans on real estate, net of allowance (2004 $67; 2003 $68)	**12,488**	12,328
Policy loans	**6,747**	6,658
Collateral and guaranteed loans, net of allowance (2004 $16; 2003 $15)	**2,226**	2,241
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2004 $5,783; 2003 $5,458)	**31,970**	30,343
Securities available for sale, at market value (cost: 2004 $24,422; 2003 $22,587)	**25,159**	24,042
Trading securities, at market value	**4,096**	4,418
Spot commodities, at market value	**687**	250
Unrealized gain on swaps, options and forward transactions	**18,852**	21,459
Trading assets	**1,136**	2,277
Securities purchased under agreements to resell, at contract value	**23,335**	20,845
Finance receivables, net of allowance (2004 $553; 2003 $562)	**20,239**	17,500
Securities lending collateral, at cost (approximates market value)	**46,893**	30,195
Other invested assets	**21,730**	18,484
Short-term investments, at cost (approximates market value)	**16,142**	8,908
Cash	**2,033**	922
Total investments, financial services assets and cash	**577,708**	519,708
Investment income due and accrued	**5,041**	4,612
Premiums and insurance balances receivable, net of allowance (2004 $263; 2003 $235)	**15,103**	13,189
Reinsurance assets, net	**20,757**	20,948
Deferred policy acquisition costs	**28,422**	25,920
Investments in partially owned companies	**1,557**	1,420
Real estate and other fixed assets, net of accumulated depreciation (2004 $4,529; 2003 $4,282)	**5,920**	5,966
Separate and variable accounts	**52,981**	60,536
Goodwill	**8,164**	7,664
Other assets	**14,079**	14,190

Total assets	**$ 729,732**	$ 674,153

See Accompanying Notes to Financial Statements.

American International Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET *(continued)*

(in millions, except share amounts) (unaudited)

	June 30, 2004 (Restated)	December 31, 2003 (Restated)
Liabilities:		
Reserve for losses and loss expenses	**$ 55,640**	$ 52,381
Reserve for unearned premiums	**22,956**	20,910
Future policy benefits for life and accident and health insurance contracts	**94,867**	92,912
Policyholders contract deposits	**200,954**	171,917
Other policyholders funds	**9,540**	9,124
Reserve for commissions, expenses and taxes	**4,137**	4,588
Insurance balances payable	**3,591**	2,915
Funds held by companies under reinsurance treaties	**3,419**	3,043
Income taxes payable:		
Current	**1,540**	366
Deferred	**2,469**	4,633
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	**16,484**	15,337
Securities sold under agreements to repurchase, at contract value	**18,129**	15,813
Trading liabilities	**4,534**	6,153
Securities and spot commodities sold but not yet purchased, at market value	**5,140**	5,458
Unrealized loss on swaps, options and forward transactions	**12,770**	14,658
Trust deposits and deposits due to banks and other depositors	**3,819**	3,627
Commercial paper	**5,704**	4,715
Notes, bonds, loans and mortgages payable	**54,587**	51,389
Commercial paper	**2,946**	1,223
Notes, bonds, loans and mortgages payable	**5,821**	5,863
Liabilities connected to trust preferred stock	**1,681**	1,682
Separate and variable accounts	**52,981**	60,536
Minority interest	**3,961**	3,302
Securities lending payable	**46,893**	30,195
Other liabilities	**23,687**	21,191
Total liabilities	**658,250**	603,931
Preferred shareholders equity in subsidiary companies	**192**	192
Shareholders equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued 2004 2,751,327,476; 2003 2,751,327,476	**6,878**	6,878
Additional paid-in capital	**1,938**	1,913
Retained earnings	**60,259**	55,392
Accumulated other comprehensive income (loss)	**3,859**	7,244
Treasury stock, at cost; 2004 145,929,930; 2003 142,880,430 shares of common stock	**(1,644)**	(1,397)
Total shareholders equity	**71,290**	70,030
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 729,732**	$ 674,153

See Accompanying Notes to Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts) (unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004 (Restated)	2003 (Restated)	**2004 (Restated)**	2003 (Restated)
Revenues:				
Premiums and other considerations	**$ 32,178**	$ 26,070	**$ 16,196**	$ 13,186
Net investment income	**9,066**	7,434	**4,491**	3,919
Realized capital gains (losses)	**(26)**	73	**(141)**	(84)
Other revenues	**5,662**	3,820	**2,959**	2,184
Total revenues	**46,880**	37,397	**23,505**	19,205
Benefits and expenses:				
Incurred policy losses and benefits	**27,101**	22,150	**13,504**	11,208
Insurance acquisition and other operating expenses	**11,867**	10,305	**6,028**	5,261
Total benefits and expenses	**38,968**	32,455	**19,532**	16,469
Income before income taxes, minority interest and cumulative effect of an accounting change	**7,912**	4,942	**3,973**	2,736
Income taxes (benefits):				
Current	**2,273**	1,224	**951**	654
Deferred	**114**	174	**267**	124
	2,387	1,398	**1,218**	778
Income before minority interest and cumulative effect of an accounting change	**5,525**	3,544	**2,755**	1,958
Minority interest	**(175)**	(124)	**(105)**	(63)
Income before cumulative effect of an accounting change	**5,350**	3,420	**2,650**	1,895
Cumulative effect of an accounting change, net of tax	**(144)**			
Net income	**$ 5,206**	$ 3,420	**$ 2,650**	$ 1,895
Earnings per common share:				
Basic				
Income before cumulative effect of an accounting change	**$ 2.06**	$ 1.31	**$ 1.02**	$ 0.73
Cumulative effect of an accounting change, net of tax	**(0.06)**			
Net income	**$ 2.00**	$ 1.31	**$ 1.02**	$ 0.73
Diluted				
Income before cumulative effect of an accounting change	**$ 2.04**	$ 1.30	**$ 1.01**	$ 0.72
Cumulative effect of an accounting change, net of tax	**(0.06)**			
Net income	**$ 1.98**	$ 1.30	**$ 1.01**	$ 0.72

Cash dividends per common share	**$**	**0.130**	$	0.094	**$**	**0.065**	$	0.047
Average shares outstanding:								
Basic		**2,609**		2,610		**2,608**		2,610
Diluted		**2,641**		2,637		**2,640**		2,637

See Accompanying Notes to Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions) (unaudited)

Six Months Ended June 30,	2004 (Restated)	2003 (Restated)
Summary:		
Net cash provided by operating activities	**$ 13,945**	$ 10,578
Net cash used in investing activities	**(35,437)**	(24,226)
Net cash provided by financing activities	**22,643**	12,906
Change in cumulative translation adjustments	**(40)**	412
Change in cash	**1,111**	(330)
Cash at beginning of period	**922**	1,165
Cash at end of period	**$ 2,033**	$ 835
Cash flows from operating activities:		
Net income	**$ 5,206**	$ 3,420
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	**10,355**	9,299
Premiums and insurance balances receivable and payable net	**(1,238)**	(1,816)
Reinsurance assets	**191**	606
Deferred policy acquisition costs	**(1,501)**	(1,387)
Investment income due and accrued	**(382)**	(210)
Funds held under reinsurance treaties	**376**	498
Other policyholders funds	**415**	134
Current and deferred income taxes net	**1,008**	724
Reserve for commissions, expenses and taxes	**(452)**	73
Other assets and liabilities net	**(16)**	(112)
Trading assets and liabilities net	**(479)**	853
Trading securities, at market value	**323**	(2,898)
Spot commodities, at market value	**(437)**	(124)
Net unrealized (gain) loss on swaps, options and forward transactions	**719**	559
Securities purchased under agreements to resell	**(2,490)**	(2,109)
Securities sold under agreements to repurchase	**2,316**	1,457
Securities and spot commodities sold but not yet purchased, at market value	**(318)**	1,244
Realized capital (gains) losses	**26**	(72)
Equity in income of partially owned companies and other invested assets	**(646)**	(257)
Amortization of premium and discount on securities	**105**	(4)
Depreciation expenses, principally flight equipment	**997**	906
Provision for finance receivable losses	**186**	183
Other net	**(319)**	(389)
Total adjustments	**8,739**	7,158

Net cash provided by operating activities	**$ 13,945**	$ 10,578

See Accompanying Notes to Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(in millions) (unaudited)

Six Months Ended June 30,	2004 (Restated)	2003 (Restated)
Cash flows from investing activities:		
Cost of bonds, at market sold	**$ 66,702**	$ 54,747
Cost of bonds, at market matured or redeemed	**7,128**	7,655
Cost of equity securities sold	**7,464**	4,057
Realized capital gains (losses)	**(26)**	72
Purchases of fixed maturities	**(98,883)**	(82,232)
Purchases of equity securities	**(8,615)**	(3,610)
Mortgage, policy and collateral loans granted	**(1,246)**	(1,110)
Repayments of mortgage, policy and collateral loans	**1,074**	872
Sales of securities available for sale	**1,058**	1,554
Maturities of securities available for sale	**2,097**	1,439
Purchases of securities available for sale	**(4,890)**	(2,749)
Sales of flight equipment	**1,127**	14
Purchases of flight equipment	**(3,369)**	(3,478)
Net additions to real estate and other fixed assets	**(337)**	(562)
Sales or distributions of other invested assets	**4,581**	2,765
Investments in other invested assets	**(6,376)**	(4,305)
Change in short-term investments	**1**	681
Investments in partially owned companies	**(1)**	221
Finance receivable originations and purchases	**(11,756)**	(5,358)
Finance receivable principal payments received	**8,830**	5,101
Net cash used in investing activities	**$ (35,437)**	$ (24,226)
Cash flows from financing activities:		
Receipts from policyholders contract deposits	**$ 27,109**	$ 15,967
Withdrawals from policyholders contract deposits	**(11,026)**	(8,096)
Change in trust deposits and deposits due to banks and other depositors	**210**	397
Change in commercial paper	**2,712**	228
Proceeds from notes, bonds, loans and mortgages payable	**14,444**	12,883
Repayments on notes, bonds, loans and mortgages payable	**(11,325)**	(7,591)
Proceeds from guaranteed investment agreements	**4,318**	2,672
Maturities of guaranteed investment agreements	**(3,171)**	(2,886)
Redemption of subsidiary company preferred stock		(371)
Proceeds from common stock issued	**90**	23
Cash dividends to shareholders	**(339)**	(245)
Acquisition of treasury stock	**(380)**	(76)
Other net	**1**	1
Net cash provided by financing activities	**$ 22,643**	$ 12,906

Supplementary information:				
Taxes paid	**$**	**1,657**	$	1,181
Interest paid	**$**	**2,139**	$	1,901

See Accompanying Notes to Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions) (unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2004 (Restated)	2003 (Restated)	**2004 (Restated)**	2003 (Restated)
Comprehensive income:				
Net income	**$ 5,206**	$ 3,420	**$ 2,650**	$ 1,895
Other comprehensive income (loss):				
Unrealized (depreciation) appreciation of investments net of reclassification adjustments	**(5,661)**	8,104	**(10,330)**	6,114
Deferred income tax benefit (expense) on above changes	**1,990**	(2,517)	**3,484**	(2,024)
Foreign currency translation adjustments	**(45)**	407	**(247)**	392
Applicable income tax benefit (expense) on above changes	**46**	(53)	**44**	(69)
Net derivative gains (losses) arising from cash flow hedging activities	**390**	(126)	**447**	(171)
Deferred income tax (expense) benefit on above changes	**(96)**	59	**(145)**	62
Retirement plan liabilities adjustment, net of tax	**(9)**	(66)	**18**	(26)
Other comprehensive income (loss)	**(3,385)**	5,808	**(6,729)**	4,278
Comprehensive income	**$ 1,821**	$ 9,228	**$ (4,079)**	$ 6,173

See Accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Financial Statement Presentation

These statements are unaudited. In the opinion of management, all adjustments consisting only of normal recurring accruals have been made for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated. Certain accounts have been reclassified in the 2003 financial statements to conform to their 2004 presentation. For further information, refer to the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2004 (2004 Form 10-K).

2. Restatement of Previously Issued Financial Statements

The following provides a description of the internal review process and details of the accounting adjustments included in the restatement of AIG s consolidated financial statements and the effect of the adjustments on AIG s Consolidated Balance Sheets at June 30, 2004 and December 31, 2003 and its Consolidated Statement of Income for the three and six month periods ended June 30, 2004 and 2003 and Consolidated Statement of Cash Flows for the six months ended June 30, 2004 and 2003.

Internal Review. In connection with the preparation of AIG s consolidated financial statements included in the 2004 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. 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 the present. 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 has concluded that the accounting for certain transactions and certain relationships needed to be restated.

Restatement. AIG has 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. See Selected Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 2 of Notes to Financial Statements in the 2004 Form 10-K for a discussion of the restatement and a reconciliation of previously reported amounts to the restated amounts for the years ended December 31, 2003, 2002, 2001 and 2000, and see below for reconciliation of such amounts for the three and six month periods ended June 30, 2004 and 2003.

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 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 restatement includes adjustments, some of which had been previously identified but considered not to be sufficiently material to require correction.

Details of Accounting Adjustments included in the 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.

Risk Transfer. To recognize the cash flows under an insurance contract as premium and losses, generally accepted accounting principles (GAAP) requires the transfer of risk. If risk transfer requirements are not met, an insurance contract is accounted for as a deposit, result-

2. Restatement of Previously Issued Financial Statements *(continued)*

ing 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.

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.

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 significant 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).

As a result of the restatement relating to Union Excess, as of June 30, 2004 and December 31, 2003, total assets decreased by approximately $1.4 billion and $1.3 billion, respectively, and shareholders equity decreased by approximately $912 million and $873 million, respectively. Net income decreased by approximately $19 million and $39 million for the three and six month periods ended June 30, 2004 and increased by $40 million and $80 million for the three and six month periods ended June 30, 2003.

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 this transaction as a deposit rather than as insurance. Such recharacterization had virtually no effect on net income or consolidated shareholders equity, but increased other liabilities by $500 million and $500 million at June 30, 2004 and December 31, 2003, respectively, and reduced reserves for loss and loss expenses by $500 million and $500 million at June 30, 2004 and December 31, 2003, respectively.

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 at June 30, 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. 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 shares by exercise of the put arrangement discussed above.

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

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2. Restatement of Previously Issued Financial Statements *(continued)*

As a result of the restatement for Richmond, AIG Re, AIG Risk Finance, AIG Risk Management and these other transactions, as of June 30, 2004 and December 31, 2003, total assets decreased by approximately $463 million and $456 million, respectively, total liabilities decreased by approximately $387 million and $406 million, respectively, and shareholders equity decreased by approximately $76 million and $51 million, respectively. Net income decreased by approximately $33 million and $25 million for the three and six month periods ended June 30, 2004, and increased by approximately $11 million and $2 million for the three and six month periods ended June 30, 2003.

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.

The effect of the restatement is a decrease in consolidated shareholders equity of approximately $434 million and $375 million at June 30, 2004 and December 31, 2003, respectively, an increase in the reserve for losses and loss expenses of approximately $668 million and $578 million at June 30, 2004 and December 31, 2003, respectively, and an increase in incurred policy losses and benefits of approximately $30 million and $90 million and $65 million and $140 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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 should not have been accounted for as sales and subsequent purchases but rather as financings. Net investment income increased over previously reported amounts by $9 million and $19 million for the three and six month periods ended June 30, 2004 and decreased by $46 million and $149 million for the three and six month periods ended June 30, 2003, and realized capital gains increased by $23 million and $41 million and by $48 million and $76 million for the three and six month periods ended June 30, 2004 and 2003, respectively. The restatement had no net effect on consolidated shareholders equity at June 30, 2004 and December 31, 2003.

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. The restatement had the effect of decreasing net investment income by approximately $74 million and $135 million and by approximately $56 million and $96 million for the three and six month periods ending June 30, 2004 and 2003, respectively, decreasing other revenues by approximately $44 million and $98 million and by approximately $54 million and $99 million for the three and six month periods ended June 30, 2004 and 2003, respectively, and reflecting an income tax benefit of approximately $118 million and $233 million and of approximately $110 million and

2. Restatement of Previously Issued Financial Statements *(continued)*

$195 million for the three and six month periods ended June 30, 2004 and 2003, respectively. There was no effect on consolidated net income or shareholders equity.

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 previously allowed AIG to record net investment income to the extent there were 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 at June 30, 2004 and December 31, 2003.

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. Because the program was discontinued in early 2003, there was no effect on the consolidated balance sheets as of June 30, 2004 or December 31, 2003. However, net investment income increased over previously reported amounts by $19 million and $40 million and by $15 million and $27 million for the three and six month periods ended June 30, 2004 and 2003, respectively, and realized capital gains increased by $11 million and $19 million for the three and six month periods ended June 30, 2004, and decreased by $8 million and $8 million for the three and six month periods ended June 30, 2003.

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 restatement had no effect on consolidated net income or shareholders equity but net investment income decreased by approximately $25 million and $50 million and insurance acquisition and other operating expenses decreased by approximately $25 million and $50 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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 cor-

2. Restatement of Previously Issued Financial Statements *(continued)*

rected as they were viewed as immaterial, are treated as corrections of errors in the restated financial statements.

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 restatement.

The restatement reverses all such unsupported top level and other directed entries, including the Foreign Life Insurance Net Investment Income Reclassification, and as a result, as of June 30, 2004 and December 31, 2003, total assets decreased by approximately $348 million and $413 million and shareholders equity decreased by approximately $368 million and $401 million, respectively. Net income increased by approximately $27 million and $40 million, and $22 million and $12 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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. 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.

Together the effect of the restatement for Capco, The Robert Plan and AIRCO was to decrease total assets by approximately $97 million and $62 million and decrease total shareholders equity by approximately $48 million and $109 million as of June 30, 2004 and December 31, 2003, respectively. Net income increased by approximately $13 million and $61 million, and by approximately $5 million and $10 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

Asset Realization. As a result of the internal review, AIG concluded that adjustments should be made to the value of 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. The effect of the restatement resulting from DBG issues was to decrease total assets by approximately $903 million and $872 million and to decrease total shareholders equity by approximately $355 million and $324 million as of June 30, 2004 and December 31, 2003, respectively. Net income increased

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2. Restatement of Previously Issued Financial Statements *(continued)*

by approximately $21 million and decreased by approximately $31 million for the three month and six month periods ended June 30, 2004, and increased by approximately $24 million and $23 million for the three and six month periods ended June 30, 2003.

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 restatement resulting from other than temporary declines had only a minor effect on consolidated shareholders equity but net income increased by approximately $26 million and $327 million for the six month periods ended June 30, 2004 and 2003, respectively.

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.

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. These 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 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, increased total assets by approximately $0.3 billion and $2.0 billion and decreased total shareholders equity by approximately $42 million and increased total shareholders equity by approximately $0.8 billion as of June 30, 2004 and December 31, 2003, respectively. Net income decreased by approximately $122 million and $214 million and by approximately $319 million and $867 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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 restatement increased total shareholders equity by $675 million and $761 million as of June 30, 2004 and December 31, 2003, respectively.

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.

2. Restatement of Previously Issued Financial Statements *(continued)*

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 June 30, 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 back to reserve for losses and loss expenses.

Together, these restatements increased total assets by approximately $101 million and $143 million and increased total shareholders equity by approximately $287 million and $358 million as of June 30, 2004 and December 31, 2003, respectively. Net income increased by approximately $40 million and $3 million for the three month periods ended June 30, 2004 and 2003, respectively, and decreased by approximately $11 million and $35 million for the six month periods ended June 30, 2004 and 2003, respectively.

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. This 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 restatement was to decrease total assets by approximately $2.5 billion and $1.9 billion, decrease total liabilities by approximately $2.1 billion and $1.6 billion and decrease total shareholders equity by approximately $331 million and $270 million as of June 30, 2004 and December 31, 2003, respectively. Net income decreased by approximately $30 million and $66 million and by approximately $45 million and $67 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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 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 the restatement was to decrease total assets by approximately $515 million and $495 million and to decrease total shareholders equity by approximately $324 million and $311 million as of June 30, 2004 and December 31, 2003, respectively.

SICO Deferred Compensation: AIG has included in this restatement, expense amounts attributable to deferred compensation granted to certain AIG employees by SICO (pursuant to the SICO Plan described under Item 11. Executive Compensation in AIG s 2004 Form 10-K), 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

2. Restatement of Previously Issued Financial Statements *(continued)*

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 periods prior to January 1, 2000, 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 decreased net income by approximately $14 million and $28 million and by $69 million and $138 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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 restatement had no effect on consolidated net income or shareholders equity but did increase premiums and other considerations and incurred policy losses and benefits each by approximately $43 million and $3 million for the three and six month periods ended June 30, 2004 and increased premiums and other considerations and incurred policy losses and benefits each by approximately $35 million for the six month period ended June 30, 2003.

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. Net income decreased by approximately $105 million and $67 million for the three and six month periods ended June 30, 2004 and increased by approximately $13 million and decreased by approximately $1 million for the three and six month periods ended June 30, 2003.

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 restatement decreased total assets by approximately $681 million and $611 million and decreased total shareholders equity by approximately $310 million and $297 million as of June 30, 2004 and December 31, 2003, respectively.

SunAmerica Partnerships: As part of the 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 restatement had no effect on consolidated net income or total shareholders equity, but increased other revenues by approximately $166 million and $321 million and by approximately $47 million and $98 million for the three and six month periods ended June 30, 2004 and 2003, respectively, and increased insurance and other operating expenses by approximately $166 million and $321 million and by approximately $47 million and $128 million for the three and six month periods ended June 30, 2004 and 2003, respectively.

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2. Restatement of Previously Issued Financial Statements *(continued)*

The following tables present the previously reported and the restated Consolidated Balance Sheet, Consolidated Statement of Income, and Condensed Consolidated Statement of Cash Flows:

CONSOLIDATED BALANCE SHEET

	June 30, 2004		December 31, 2003	
(in millions)	**As Previously Reported**	**As Restated**	As Previously Reported	As Restated
Assets:				
Investments, financial services assets and cash:				
Fixed maturities:				
Bonds available for sale, at market value	**$ 314,926**	**$ 314,926**	$ 300,935	$ 300,935
Bonds held to maturity, at amortized cost	**12,877**	**12,877**	8,037	8,037
Bond trading securities, at market value	**1,793**	**1,793**	282	282
Equity securities:				
Common stocks available for sale, at market value	**7,786**	**7,786**	7,522	7,522
Common stocks trading, at market value	**4,780**	**4,780**	156	156
Preferred stocks, at market value	**1,813**	**1,813**	1,906	1,906
Mortgage loans on real estate, net of allowance	**12,455**	**12,488**	12,295	12,328
Policy loans	**6,747**	**6,747**	6,658	6,658
Collateral and guaranteed loans, net of allowance	**2,318**	**2,226**	2,296	2,241
Financial services assets:				
Flight equipment primarily under operating leases, net of accumulated depreciation	**31,970**	**31,970**	30,343	30,343
Securities available for sale, at market value	**17,876**	**25,159**	15,714	24,042
Trading securities, at market value	**3,616**	**4,096**	3,300	4,418
Spot commodities, at market value	**687**	**687**	250	250
Unrealized gain on swaps, options and forward transactions	**18,994**	**18,852**	21,599	21,459
Trading assets	**1,411**	**1,136**	2,548	2,277
Securities purchased under agreements to resell, at contract value	**30,660**	**23,335**	28,170	20,845
Finance receivables, net of allowance	**20,339**	**20,239**	17,609	17,500
Securities lending collateral, at cost	**46,893**	**46,893**	30,195	30,195
Other invested assets	**20,320**	**21,730**	16,787	18,484
Short-term investments, at cost	**16,129**	**16,142**	8,914	8,908
Cash	**2,033**	**2,033**	922	922
Total investments, financial services assets and cash	**576,423**	**577,708**	516,438	519,708
Investment income due and accrued	**5,434**	**5,041**	4,959	4,612
Premiums and insurance balances receivable, net of allowance	**16,447**	**15,103**	14,166	13,189
Reinsurance assets, net	**27,359**	**20,757**	27,962	20,948
Deferred policy acquisition costs	**28,902**	**28,422**	26,398	25,920
Investments in partially owned companies	**1,551**	**1,557**	1,428	1,420
Real estate and other fixed assets, net of accumulated depreciation	**5,958**	**5,920**	6,006	5,966
Separate and variable accounts	**52,981**	**52,981**	60,536	60,536
Goodwill	**8,133**	**8,164**	7,633	7,664
Other assets	**12,794**	**14,079**	12,820	14,190
Total assets	**$ 735,982**	**$ 729,732**	$ 678,346	$ 674,153

2. Restatement of Previously Issued Financial Statements *(continued)*

CONSOLIDATED BALANCE SHEET *(continued)*

(in millions)	June 30, 2004 As Previously Reported	June 30, 2004 As Restated	December 31, 2003 As Previously Reported	December 31, 2003 As Restated
Liabilities:				
Reserve for losses and loss expenses	**$ 59,251**	**$ 55,640**	$ 56,118	$ 52,381
Reserve for unearned premiums	**22,837**	**22,956**	20,762	20,910
Future policy benefits for life and accident and health insurance contracts	**95,023**	**94,867**	92,970	92,912
Policyholders contract deposits	**201,011**	**200,954**	171,989	171,917
Other policyholders funds	**9,532**	**9,540**	9,100	9,124
Reserve for commissions, expenses and taxes	**4,134**	**4,137**	4,487	4,588
Insurance balances payable	**3,277**	**3,591**	2,592	2,915
Funds held by companies under reinsurance treaties	**5,323**	**3,419**	4,664	3,043
Income taxes payable:				
Current	**2,641**	**1,540**	1,977	366
Deferred	**3,957**	**2,469**	5,778	4,633
Financial services liabilities:				
Borrowings under obligations of guaranteed investment agreements	**16,484**	**16,484**	15,337	15,337
Securities sold under agreements to repurchase, at contract value	**17,003**	**18,129**	14,810	15,813
Trading liabilities	**4,534**	**4,534**	6,153	6,153
Securities and spot commodities sold but not yet purchased, at market value	**5,140**	**5,140**	5,458	5,458
Unrealized loss on swaps, options and forward transactions	**13,455**	**12,770**	15,268	14,658
Trust deposits and deposits due to banks and other depositors	**3,695**	**3,819**	3,491	3,627
Commercial paper	**5,704**	**5,704**	4,715	4,715
Notes, bonds, loans and mortgages payable	**53,688**	**54,587**	50,138	51,389
Commercial paper	**2,946**	**2,946**	1,223	1,223
Notes, bonds, loans and mortgages payable	**5,821**	**5,821**	5,865	5,863
Liabilities connected to trust preferred stock	**1,681**	**1,681**	1,682	1,682
Separate and variable accounts	**52,981**	**52,981**	60,536	60,536
Minority interest	**3,958**	**3,961**	3,311	3,302
Securities lending payable	**46,893**	**46,893**	30,195	30,195
Other liabilities	**21,244**	**23,687**	18,282	21,191
Total liabilities	**662,213**	**658,250**	606,901	603,931
Preferred shareholders equity in subsidiary companies	**192**	**192**	192	192
Shareholders equity:				
Common stock	**6,878**	**6,878**	6,878	6,878
Additional paid-in capital	**565**	**1,938**	568	1,913
Retained earnings	**66,138**	**60,259**	60,960	55,392
Accumulated other comprehensive income (loss)	**1,640**	**3,859**	4,244	7,244
Treasury stock, at cost	**(1,644)**	**(1,644)**	(1,397)	(1,397)
Total shareholders equity	**73,577**	**71,290**	71,253	70,030
Total liabilities, preferred shareholders equity in subsidiary companies and shareholders equity	**$ 735,982**	**$ 729,732**	$ 678,346	$ 674,153

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2. Restatement of Previously Issued Financial Statements *(continued)*

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)	**For the Six Months Ended June 30, 2004**		For the Six Months Ended June 30, 2003		**For the Three Months Ended June 30, 2004**		For the Three Months Ended June 30, 2003	
	As Previously Reported	**As Restated**	As Previously Reported	As Restated	**As Previously Reported**	**As Restated**	As Previously Reported	As Restated
Revenues:								
Premiums and other considerations	**$ 32,460**	**$ 32,178**	$ 26,447	$ 26,070	**$ 16,321**	**$ 16,196**	$ 13,375	$ 13,186
Net investment income	**9,376**	**9,066**	8,115	7,434	**4,656**	**4,491**	4,149	3,919
Realized capital gains (losses)	**(60)**	**(26)**	(989)	73	**(143)**	**(141)**	(357)	(84)
Other revenues	**5,670**	**5,662**	5,245	3,820	**2,975**	**2,959**	2,724	2,184
Total revenues	**47,446**	**46,880**	38,818	37,397	**23,809**	**23,505**	19,891	19,205
Benefits and expenses:								
Incurred policy losses and benefits	**27,275**	**27,101**	22,466	22,150	**13,541**	**13,504**	11,326	11,208
Insurance acquisition and other operating expenses	**11,491**	**11,867**	9,998	10,305	**5,879**	**6,028**	5,135	5,261
Total benefits and expenses	**38,766**	**38,968**	32,464	32,455	**19,420**	**19,532**	16,461	16,469
Income before income taxes, minority interest and cumulative effect of an accounting change	**8,680**	**7,912**	6,354	4,942	**4,389**	**3,973**	3,430	2,736
Income taxes (benefits):								
Current	**2,600**	**2,273**	1,511	1,224	**1,127**	**951**	822	654
Deferred	**157**	**114**	425	174	**274**	**267**	238	124
	2,757	**2,387**	1,936	1,398	**1,401**	**1,218**	1,060	778
Income before minority interest and cumulative effect of an accounting change	**5,923**	**5,525**	4,418	3,544	**2,988**	**2,755**	2,370	1,958
Minority interest	**(224)**	**(175)**	(188)	(124)	**(126)**	**(105)**	(94)	(63)
Income before cumulative effect of an accounting change	**5,699**	**5,350**	4,230	3,420	**2,862**	**2,650**	2,276	1,895
Cumulative effect of an accounting change, net of tax	**(181)**	**(144)**						
Net income	**$ 5,518**	**$ 5,206**	$ 4,230	$ 3,420	**$ 2,862**	**$ 2,650**	$ 2,276	$ 1,895
Earnings per common share:								
Basic								
	$ 2.18	**$ 2.06**	$ 1.62	$ 1.31	**$ 1.09**	**$ 1.02**	$ 0.87	$ 0.73

Income before cumulative effect of an accounting change																
Cumulative effect of an accounting change, net of tax		**(0.07)**		**(0.06)**												
Net income	**$**	**2.11**	**$**	**2.00**	$	1.62	$	1.31	**$**	**1.09**	**$**	**1.02**	$	0.87	$	0.73
Diluted																
Income before cumulative effect of an accounting change	**$**	**2.17**	**$**	**2.04**	$	1.61	$	1.30	**$**	**1.09**	**$**	**1.01**	$	0.87	$	0.72
Cumulative effect of an accounting change, net of tax		**(0.07)**		**(0.06)**												
Net income	**$**	**2.10**	**$**	**1.98**	$	1.61	$	1.30	**$**	**1.09**	**$**	**1.01**	$	0.87	$	0.72
Cash dividends per common share	**$**	**0.130**	**$**	**0.130**	$	0.094	$	0.094	**$**	**0.065**	**$**	**0.065**	$	0.047	$	0.047
Average shares outstanding:																
Basic		**2,609**		**2,609**		2,610		2,610		**2,608**		**2,608**		2,610		2,610
Diluted		**2,632**		**2,641**		2,628		2,637		**2,631**		**2,640**		2,627		2,637

2. Restatement of Previously Issued Financial Statements *(continued)*

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30, 2004		Six Months Ended June 30, 2003	
(in millions)	**As Previously Reported**	**As Restated**	As Previously Reported	As Restated
Net cash provided by operating activities	**$ 14,291**	**$ 13,945**	$ 12,652	$ 10,578
Net cash used in investing activities	**(36,058)**	**(35,437)**	(25,979)	(24,226)
Net cash provided by financing activities	**22,990**	**22,643**	12,538	12,906
Change in cumulative translation adjustments	**(112)**	**(40)**	459	412
Change in cash	**1,111**	**1,111**	(330)	(330)
Cash at beginning of period	**922**	**922**	1,165	1,165
Cash at end of period	**$ 2,033**	**$ 2,033**	$ 835	$ 835

The following table reflects the effect of the aforementioned adjustments on each component of net income:

For the Six Months Ended June 30, *(in millions)*	**2004**	2003
Net Income as Previously Reported	**$ 5,518**	$ 4,230
Revenues	**(566)**	(1,421)
Benefits and expenses	**202**	(9)
Income taxes	**(370)**	(538)
Minority interest	**(49)**	(64)
Cumulative effect of an accounting change, net of tax	**37**	
Net Income as restated	**$ 5,206**	$ 3,420

The following two tables reflect the effect of the aforementioned adjustments on each component of revenue:

For the Six Months Ended June 30, 2004 *(in millions)*	**Premiums and Other Considerations**	**Net Investment Income**	**Realized Capital Gains (Losses)**	**Other Revenues**	**Total Revenues**
As Previously Reported	**$ 32,460**	**$ 9,376**	**$ (60)**	**$ 5,670**	**$ 47,446**
Adjustments:					
Risk Transfer:					
Union Excess	**193**	**130**	**(24)**		**299**
Other Risk Transfer	**(126)**	**(4)**			**(130)**
Net Investment Income:					
Covered Calls		**19**	**41**		**60**

Synthetic Fuel Investment		(135)		(98)	(233)
Hedge Fund Accounting		24		(17)	7
Muni Tender Option Bond Program		40	19		59
DBG/AIG Capital Corporation Intercompany Dividend		(50)			(50)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	69	(190)	43	38	(40)
Conversion of Underwriting Losses to Capital Losses			92		92
Asset Realization:					
Other Than Temporary Declines			40		40
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			(83)	(234)	(317)
Foreign Currency Translation (FAS 52)			(27)		(27)
Life Settlements	(375)	(72)			(447)
Commutations	3				3
Dollar Roll Transactions			(67)		(67)
All Other Adjustments Net	(46)	(72)		303	185
Total adjustments	(282)	(310)	34	(8)	(566)
As Restated	$ 32,178	$ 9,066	$ (26)	$ 5,662	$ 46,880

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American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued Financial Statements *(continued)*

For the Six Months Ended June 30, 2003 *(in millions)*	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	$ 26,447	$ 8,115	$ (989)	$ 5,245	$ 38,818
Adjustments:					
Risk Transfer:					
Union Excess	220	152	(8)		364
Other Risk Transfer	(248)	8			(240)
Net Investment Income:					
Covered Calls		(149)	76		(73)
Synthetic Fuel Investment		(96)		(99)	(195)
Muni Tender Option Bond Program		27	(8)		19
DBG/AIG Capital Corporation Intercompany Dividend		(50)			(50)
Top Level Adjustments and Other Directed Entries (other than loss reserves)		(488)	415	23	(50)
Conversion of Underwriting Losses to Capital Losses			10		10
Asset Realization:					
Other Than Temporary Declines			503		503
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			63	(1,415)	(1,352)
Foreign Currency Translation (FAS 52)			(34)		(34)
Life Settlements	(408)	(69)			(477)
Commutations	35				35
Dollar Roll Transactions			(1)		(1)
All Other Adjustments Net	24	(16)	46	66	120
Total adjustments	(377)	(681)	1,062	(1,425)	(1,421)
As Restated	$ 26,070	$ 7,434	$ 73	$ 3,820	$ 37,397

The following two tables reflect the effect of the aforementioned adjustments on each component of Benefits and Expenses:

For the Six Months Ended June 30, 2004 *(in millions)*	**Incurred Policy Losses and Benefits**	**Insurance Acquisition and Other Operating Expenses**	**Total Benefits and Expenses**
As Previously Reported	**$ 27,275**	**$ 11,491**	**$ 38,766**
Adjustments:			
Risk Transfer:			
Union Excess	**335**	**24**	**359**
Other Risk Transfer	**(68)**	**(24)**	**(92)**
Loss Reserves	**90**		**90**

Net Investment Income:			
DBG/AIG Capital Corporation Intercompany Dividend		**(50)**	**(50)**
Top Level Adjustments and Other Directed Entries (other than loss reserves)	**30**	**(133)**	**(103)**
Conversion of Underwriting Losses to Capital Losses		**(2)**	**(2)**
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		**14**	**14**
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		**11**	**11**
Foreign Currency Translation (FAS 52)		**(6)**	**(6)**
Life Settlements	**(345)**		**(345)**
Deferred Acquisition Costs (DAC)	**(130)**	**155**	**25**
SICO Deferred Compensation		**28**	**28**
Commutations	**3**		**3**
All Other Adjustments Net	**(89)**	**359**	**270**
Total adjustments	**(174)**	**376**	**202**
As Restated	**$ 27,101**	**$ 11,867**	**$ 38,968**

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2. Restatement of Previously Issued Financial Statements *(continued)*

For the Six Months Ended June 30, 2003 *(in millions)*	Incurred Policy Losses and Benefits	Insurance Acquisition and Other Operating Expenses	Total Benefits and Expenses
As Previously Reported	$ 22,466	$ 9,998	$ 32,464
Adjustments:			
Risk Transfer:			
Union Excess	216	24	240
Other Risk Transfer	(214)	(28)	(242)
Loss Reserves	140		140
Net Investment Income:			
DBG/AIG Capital Corporation Intercompany Dividend		(50)	(50)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	(32)	(31)	(63)
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		(47)	(47)
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		(18)	(18)
Foreign Currency Translation (FAS 52)		13	13
Life Settlements	(374)		(374)
Deferred Acquisition Costs (DAC)	(95)	123	28
SICO Deferred Compensation		138	138
Commutations	35		35
All Other Adjustments Net	8	183	191
Total adjustments	(316)	307	(9)
As Restated	$ 22,150	$ 10,305	$ 32,455

The following table reflects the effect of the aforementioned adjustments on income taxes:

For the Six Months Ended June 30, *(in millions)*	**2004**	2003
Income Taxes, as Previously Reported	**$ 2,757**	$ 1,936
Adjustments:		
Risk Transfer:		
Union Excess	**(21)**	43
Other Risk Transfer	**(15)**	(3)
Loss Reserves	**(32)**	(49)
Net Investment Income:		
Covered Calls	**21**	(26)
Synthetic Fuel Investment	**(233)**	(195)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	**22**	3
Asset Realization:		
Domestic Brokerage Group (DBG) Issues	**17**	24
Other Than Temporary Declines	**14**	176
Other GAAP Corrections:		
Accounting for Derivatives (FAS 133 Hedge Accounting)	**(115)**	(467)
Accounting for Deferred Taxes	**(14)**	11

Foreign Currency Translation (FAS 52)		**(9)**		(12)
Life Settlements		**(36)**		(36)
Deferred Acquisition Costs (DAC)		**(7)**		
All Other Adjustments Net		**38**		(7)
Total adjustments		**(370)**		(538)
Income Taxes, as Restated	**$**	**2,387**	$	1,398

2. Restatement of Previously Issued Financial Statements *(continued)*

The following table reflects the effect of the aforementioned adjustments on each component of net income:

For the Three Months Ended June 30, *(in millions)*	**2004**	2003
Net Income as Previously Reported	$ **2,862**	$ 2,276
Revenues	**(304)**	(686)
Benefits and expenses	**112**	8
Income taxes	**(183)**	(282)
Minority interest	**(21)**	(31)
Net Income as restated	$ **2,650**	$ 1,895

The following two tables reflect the effect of the aforementioned adjustments on each component of revenue:

For the Three Months Ended June 30, 2004 *(in millions)*	**Premiums and Other Considerations**	**Net Investment Income**	**Realized Capital Gains (Losses)**	**Other Revenues**	**Total Revenues**
As Previously Reported	$ **16,321**	$ **4,656**	$ **(143)**	$ **2,975**	$ **23,809**
Adjustments:					
Risk Transfer:					
Union Excess	**96**	**65**	**(12)**		**149**
Other Risk Transfer	**(77)**	**(2)**			**(79)**
Net Investment Income:					
Covered Calls		**9**	**23**		**32**
Synthetic Fuel Investment		**(74)**		**(44)**	**(118)**
Hedge Fund Accounting		**11**			**11**
Muni Tender Option Bond Program		**19**	**11**		**30**
DBG/AIG Capital Corporation Intercompany Dividend		**(25)**			**(25)**
Top Level Adjustments and Other Directed Entries (other than loss reserves)	**25**	**(91)**	**21**	**26**	**(19)**
Conversion of Underwriting Losses to Capital Losses			**19**		**19**
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			**(2)**	**(154)**	**(156)**
Foreign Currency Translation (FAS 52)			**47**		**47**
Life Settlements	**(179)**	**(33)**			**(212)**
Commutations	**43**				**43**
Dollar Roll Transactions			**(105)**		**(105)**
All Other Adjustments Net	**(33)**	**(44)**		**156**	**79**
Total adjustments	**(125)**	**(165)**	**2**	**(16)**	**(304)**
As Restated	$ **16,196**	$ **4,491**	$ **(141)**	$ **2,959**	$ **23,505**

2. Restatement of Previously Issued Financial Statements *(continued)*

For the Three Months Ended June 30, 2003 *(in millions)*	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	$ 13,375	$ 4,149	$ (357)	$ 2,724	$ 19,891
Adjustments:					
Risk Transfer:					
Union Excess	110	76	(4)		182
Other Risk Transfer	(83)	5			(78)
Net Investment Income:					
Covered Calls		(46)	48		2
Synthetic Fuel Investment		(56)		(54)	(110)
Muni Tender Option Bond Program		15	(8)		7
DBG/AIG Capital Corporation Intercompany Dividend		(25)			(25)
Top Level Adjustments and Other Directed Entries (other than loss reserves)		(191)	212	22	43
Conversion of Underwriting Losses to Capital Losses			5		5
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			57	(539)	(482)
Foreign Currency Translation (FAS 52)			(3)		(3)
Life Settlements	(218)	(50)			(268)
Commutations					
Dollar Roll Transactions			13		13
All Other Adjustments Net	2	42	(47)	31	28
Total adjustments	(189)	(230)	273	(540)	(686)
As Restated	$ 13,186	$ 3,919	$ (84)	$ 2,184	$ 19,205

The following two tables reflect the effect of the aforementioned adjustments on each component of Benefits and Expenses:

For the Three Months Ended June 30, 2004 *(in millions)*	**Incurred Policy Losses and Benefits**	**Insurance Acquisition and Other Operating Expenses**	**Total Benefits and Expenses**
As Previously Reported	**$ 13,541**	**$ 5,879**	**$ 19,420**
Adjustments:			
Risk Transfer:			
Union Excess	**167**	**12**	**179**
Other Risk Transfer	**(21)**	**(8)**	**(29)**
Loss Reserves	**30**		**30**
Net Investment Income:			
		(25)	**(25)**

DBG/AIG Capital Corporation Intercompany Dividend			
Top Level Adjustments and Other Directed Entries (other than loss reserves)	**5**	**(65)**	**(60)**
Conversion of Underwriting Losses to Capital Losses		**(1)**	**(1)**
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		**(33)**	**(33)**
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		**31**	**31**
Foreign Currency Translation (FAS 52)		**(8)**	**(8)**
Life Settlements	**(165)**		**(165)**
Deferred Acquisition Costs (DAC)	**(56)**	**50**	**(6)**
SICO Deferred Compensation		**14**	**14**
Commutations	**43**		**43**
All Other Adjustments Net	**(40)**	**182**	**142**
Total adjustments	**(37)**	**149**	**112**
As Restated	**$ 13,504**	**$ 6,028**	**$ 19,532**

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2. Restatement of Previously Issued Financial Statements *(continued)*

For the Three Months Ended June 30, 2003 *(in millions)*	Incurred Policy Losses and Benefits	Insurance Acquisition and Other Operating Expenses	Total Benefits and Expenses
As Previously Reported	$ 11,326	$ 5,135	$ 16,461
Adjustments:			
Risk Transfer:			
Union Excess	108	12	120
Other Risk Transfer	(67)	(26)	(93)
Loss Reserves	65		65
Net Investment Income:			
DBG/AIG Capital Corporation Intercompany Dividend		(25)	(25)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	19	(6)	13
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		(36)	(36)
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		8	8
Foreign Currency Translation (FAS 52)		(4)	(4)
Life Settlements	(199)		(199)
Deferred Acquisition Costs (DAC)	(51)	65	14
SICO Deferred Compensation		69	69
Commutations			
All Other Adjustments Net	7	69	76
Total adjustments	(118)	126	8
As Restated	$ 11,208	$ 5,261	$ 16,469

The following table reflects the effect of the aforementioned adjustments on income taxes:

For the Three Months Ended June 30, *(in millions)*	**2004**	2003
Income Taxes, as Previously Reported	**$ 1,401**	$ 1,060
Adjustments:		
Risk Transfer:		
Union Excess	**(10)**	21
Other Risk Transfer	**(17)**	2
Loss Reserves	**(11)**	(23)
Net Investment Income:		
Covered Calls	**11**	
Synthetic Fuel Investment	**(118)**	(110)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	**14**	11
Asset Realization:		