

AMERICAN INTERNATIONAL GROUP INC

Form 10-K/A

March 16, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

(Amendment No. 1)

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

or

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

For the transition period from _____ to _____

Commission file number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-2592361
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
70 Pine Street, New York, New York	10270
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Title of each class

None

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

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

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

Yes No

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

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

FORM 10-K/A : 1

Explanatory Note

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TABLE OF CONTENTS

	Page
<hr/>	
PART I	
Item 1. Business	5
Item 3. Legal Proceedings	20
PART II	
Item 6. Selected Financial Data	23
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	110
Item 8. Financial Statements and Supplementary Data	110
Item 9A. Controls and Procedures	226
PART IV	
Item 15. Exhibits and Financial Statement Schedules	229
SIGNATURES	230

4 : FORM 10-K/A

PART I**ITEM 1. Business**

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

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

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

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

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

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

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

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

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

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- (c) Includes fourth quarter 2004 increase of \$850 million to net loss reserves reflecting the change in estimate for asbestos and environmental reserves.*
- (d) In the fourth quarter of 2002, after completion of its annual review of General Insurance loss and loss adjustment expense reserves, AIG increased its net loss reserves relating to accident years 1997 through 2001 by \$2.1 billion.*
- (e) Includes \$769 million in World Trade Center and related losses (WTC losses).*
- (f) Includes \$100 million in WTC losses.*
- (g) Includes the unrealized gain (loss) attributable to hedging activities that do not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For 2004, 2003, 2002, 2001 and 2000, respectively, the amounts included in interest, lease and finance charges are \$(122) million, \$(1.01) billion, \$220 million, \$56 million and \$1.17 billion, and the amounts included in Financial Services operating income are \$(149) million, \$(964) million, \$240 million, \$75 million and \$1.17 billion. See also Management's Discussion and Analysis of Financial Condition and Results of Operations - Restatements of Previously Issued Financial Statements.*
- (h) Represents the sum of General Insurance net premiums earned, Life Insurance & Retirement Services GAAP premiums, net investment income, Financial Services interest, lease and finance charges, Asset Management advisory and management fees and net investment income from Guaranteed Investment Contracts (GICs), and realized capital gains (losses).*
- (i) Represents income before income taxes, minority interest and cumulative effect of accounting changes. Includes segment operating income and other realized capital gains (losses) presented above, as well as AIG Parent and other operations of \$(333) million, \$(1.26) billion, \$(610) million, \$(751) million and \$(977) million in 2004, 2003, 2002, 2001 and 2000, respectively, and acquisition, restructuring and related charges of \$(2.02) billion in 2001 and \$(315) million in 2000.*

6 : FORM 10-K/A

General Insurance Operations

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

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

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

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

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

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

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

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

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

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

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

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

FORM 10-K/A : 7

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

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

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

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

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

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

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

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

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

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

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

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

8 : FORM 10-K/A

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

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

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

Analysis of Consolidated Losses and Loss Expense Reserve Development

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

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

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

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

<i>(in millions)</i>	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
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Gross Liability, End of Year	\$ 30,982	\$ 32,298	\$ 32,605	\$ 32,049	\$ 36,973	\$ 37,278	\$ 39,222	\$ 42,629	\$ 48,173	\$ 53,387	\$ 63,431
Reinsurance Recoverable, End of Year	12,071	12,326	11,716	10,529	10,658	10,567	12,251	15,201	17,327	15,643	14,624
Net Liability, End of Year	18,911	19,972	20,889	21,520	26,315	26,711	26,971	27,428	30,846	37,744	48,807
Reestimated Gross Liability	34,495	36,553	37,226	39,088	47,229	51,337	55,241	57,301	56,711	57,366	
Reestimated Reinsurance Recoverable	13,732	14,817	14,240	14,879	16,597	17,427	19,031	19,337	19,128	16,435	
Reestimated Net Liability	20,763	21,736	22,986	24,209	30,632	33,910	36,210	37,964	37,583	40,931	
Cumulative Gross Redundancy/(Deficiency)	(3,513)	(4,255)	(4,621)	(7,039)	(10,256)	(14,059)	(16,019)	(14,672)	(8,538)	(3,978)	

10 : FORM 10-K/A

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

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

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

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

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

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

FORM 10-K/A : 11

Reconciliation of Net Reserves for Losses and Loss Expenses

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

^(a) Reflects the opening balances with respect to the GE U.S.-based auto and home insurance business acquired in 2003.

^(b) Includes accretion of discount of \$377 million in 2004, \$296 million in 2003 and \$280 million in 2002.

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

^(d) See also Note 6(a) of Notes to Consolidated Financial Statements.

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

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

Life Insurance & Retirement Services Operations

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

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

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

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

12 : FORM 10-K/A

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

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

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

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

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

Insurance Investment Operations

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

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

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

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(a) Including investment income due and accrued, and real estate.

(b) Net investment income divided by the annual average sum of cash and invested assets.

(c) Net investment income divided by the annual average invested assets.

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

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

(a) Including investment income due and accrued, and real estate.

(b) Net investment income divided by the annual average sum of cash and invested assets.

(c) Net investment income divided by the annual average invested assets.

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

Financial Services Operations

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

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

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

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

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

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

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

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

Asset Management Operations

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

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

Other Operations

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

14 : FORM 10-K/A

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

Additional Investments

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

Locations of Certain Assets

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

Regulation

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

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

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

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

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

FORM 10-K/A : 15

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

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

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

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

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

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

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

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

Competition

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

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

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

Certain Factors Affecting AIG's Business

AIG's Credit Ratings

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

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

16 : FORM 10-K/A

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

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

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

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

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

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

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

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

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

Regulatory Investigations

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

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

FORM 10-K/A : 17

Significant investigations into AIG's business are continuing and the commencement of additional investigations is possible.

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

The Relationships Between AIG and Starr and SICO

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

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

Certain Material Weaknesses

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

Access to Capital Markets

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

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

Foreign Operations

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

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

18 : FORM 10-K/A

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

Liquidity

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

Regulation

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

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

Casualty Insurance Underwriting and Reserves

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

Natural Disasters and Pandemic Diseases

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

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

FORM 10-K/A : 19

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

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

ITEM 3. Legal Proceedings

General

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

2006 Regulatory Settlements

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

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

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

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

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

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

PNC Settlement

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

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

20 : FORM 10-K/A

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

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

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

Investigations of Insurance Practices

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

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

Pending Litigation

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

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

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

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

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

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

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

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

Effect on AIG

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

PART II

ITEM 6. Selected Financial Data

AMERICAN INTERNATIONAL GROUP, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

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

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

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

- (a) Represents the sum of General Insurance net premiums earned, Life Insurance & Retirement Services GAAP premiums, net investment income, Financial Services interest, lease and finance charges, Asset Management advisory and management fees and net investment income with respect to guaranteed investment contracts, and realized capital gains (losses).
- (b) Includes the unrealized gain (loss) attributable to hedging activities that do not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For 2004, 2003, 2002, 2001 and 2000, respectively, the amounts included are \$(122) million, \$(1.01) billion, \$220 million, \$56 million and \$1.17 billion. See also Management's Discussion and Analysis of Financial Condition and Results of Operations - Restatements of Previously Issued Financial Statements .
- (c) Includes fourth quarter 2004 charge of \$850 million attributable to change in estimate for asbestos and environmental reserves.
- (d) Includes catastrophe losses of \$1.16 billion in 2004, net loss reserve charge of \$2.1 billion in 2002 and World Trade Center losses of \$900 million in 2001.
- (e) Per share amounts for all periods presented reflect the adoption of Statement of Financial Accounting Standards No. 128, Earnings per Share.
- (f) Assumes conversion of contingently convertible bonds due to the adoption of EITF Issue No. 04-8 Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effect on Diluted Earnings per Share.
- (g) Dividends have not been restated to reflect dividends paid by AGC which was acquired by AIG on August 29, 2001.
- (h) Including that portion of long-term debt maturing in less than one year. See also Note 9 of Notes to Consolidated Financial Statements.
- (i) Includes \$2.1 billion, \$2.2 billion and \$1.4 billion for the years ended 2002, 2001 and 2000, respectively, of other liabilities connected to the consolidation of the Muni Tender Option Bond Program trusts. See also Management's Discussion and Analysis of Financial Condition and Results of Operations - Restatements of Previously Issued Financial Statements .

FORM 10-K/A : 23

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

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

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, 2004

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

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Earnings per common share:

Basic

Income before cumulative effect of an accounting change	\$	3.79	\$	0.09	\$	3.88	\$	(0.05)	\$	3.83
Cumulative effect of an accounting change, net of tax		(0.06)				(0.06)				(0.06)
Net Income		3.73		0.09		3.82		(0.05)		3.77

Diluted

Income before cumulative effect of an accounting change	\$	3.75	\$	0.09	\$	3.84	\$	(0.05)	\$	3.79
Cumulative effect of an accounting change, net of tax		(0.06)				(0.06)				(0.06)
Net Income		3.69		0.09		3.78		(0.05)		3.73

Average shares outstanding:

Basic		2,606				2,606				2,606
Diluted		2,637				2,637				2,637

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

FORM 10-K/A : 29

CONSOLIDATED STATEMENT OF INCOME (continued)

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

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Income before cumulative effect of an
accounting change
Cumulative effect of an accounting change, net
of tax

Net Income	3.04	0.01	3.05	0.02	3.07
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Average shares outstanding:

Basic	2,610		2,610		2,610
Diluted	2,637		2,637		2,637

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

30 : FORM 10-K/A

CONSOLIDATED STATEMENT OF INCOME (continued)

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

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

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

FORM 10-K/A : 31

CONSOLIDATED STATEMENT OF INCOME (continued)

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

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

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

32 : FORM 10-K/A

American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME (continued)

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

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

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

FORM 10-K/A : 33

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

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

INDEX TO FINANCIAL INFORMATION
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

INDEX

	Page
CAUTIONARY STATEMENT REGARDING PROJECTIONS AND OTHER INFORMATION ABOUT FUTURE EVENTS	34
RESTATEMENTS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS	35
FOURTH QUARTER 2004 CHANGES IN ESTIMATES	49
OVERVIEW OF OPERATIONS AND BUSINESS RESULTS	67
<i>Consolidated Results</i>	68
CRITICAL ACCOUNTING ESTIMATES	71
OPERATING REVIEW	71
<i>General Insurance Operations</i>	71
<i>General Insurance Results</i>	73
<i>Reinsurance</i>	74
<i>Reserve for Losses and Loss Expenses</i>	76
<i>Asbestos and Environmental Reserves</i>	81
<i>Life Insurance & Retirement Services Operations</i>	85
<i>Life Insurance & Retirement Services Results</i>	86
<i>Underwriting and Investment Risk</i>	87
<i>Insurance and Asset Management Invested Assets</i>	89
<i>Credit Quality</i>	90
<i>Valuation of Invested Assets</i>	90
<i>Financial Services Operations</i>	93
<i>Financial Services Results</i>	95
<i>Financial Services Invested Assets</i>	96
<i>Asset Management Operations</i>	98
<i>Asset Management Results</i>	98
<i>Other Operations</i>	99
CAPITAL RESOURCES	99
<i>Borrowings</i>	99
<i>Contractual Obligations and Other Commercial Commitments</i>	102
<i>Shareholders' Equity</i>	103
<i>Stock Purchase</i>	103
<i>Dividends from Insurance Subsidiaries</i>	103
<i>Regulation and Supervision</i>	104

LIQUIDITY	104
SPECIAL PURPOSE VEHICLES AND OFF BALANCE SHEET	
ARRANGEMENTS	105
DERIVATIVES	106
MANAGING MARKET RISK	107
<i>Insurance</i>	107
<i>Financial Services</i>	108
RECENT ACCOUNTING STANDARDS	109

Cautionary Statement Regarding Projections and Other Information About Future Events

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

Restatements of Previously Issued Financial Statements

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

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

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

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

(a) First Restatement

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

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

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

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

FORM 10-K/A : 35

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

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

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

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

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

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

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

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

American International Group, Inc. and Subsidiaries

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

Increase (Decrease) For Years Ended and at December 31, (in millions)	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	\$ 386	\$ 439	\$ 673	\$ 726	\$ 251
Net investment income	259	304	233	179	140
Realized capital gains (losses)	(48)	(17)	105	39	61
Incurred policy losses and benefits	671	433	683	638	955
Insurance acquisition and other operating expenses	48	48	52	111	63
Net income	(78)	160	180	127	(368)

Consolidated Balance Sheet:					
Premiums and insurance balances receivable, net of allowance	2,417	1,923	1,477	956	119
Reinsurance assets	(5,511)	(5,815)	(5,856)	(5,382)	(4,763)
Other assets	1,607	2,549	2,760	2,561	2,327
Total shareholders' equity	(951)	(873)	(1,033)	(1,213)	(1,340)

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

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

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

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

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

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

FORM 10-K/A : 37

American International Group, Inc. and Subsidiaries

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

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

	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	\$ (287)	\$ 33	\$ (856)	\$ (924)	\$ (815)
Incurred policy losses and benefits	(159)	53	(862)	(561)	(739)
Insurance acquisition and other operating expenses	(112)	(62)	(35)	(242)	(65)
Net income	(26)		22	(66)	(4)

Consolidated
Balance Sheet:

Premiums and insurance balances receivable, net of allowance	(362)	(389)	(537)	(752)	(932)
Reinsurance assets	(529)	(1,185)	(912)	(937)	(1,032)
Other assets	947	1,126	634	807	989
Reserve for losses and loss expenses	(1,154)	(1,609)	(1,609)	(995)	(748)
Reserve for unearned premiums	82	112	(31)	(131)	(347)
Funds held by companies under reinsurance treaties	(740)	(1,019)	(1,021)	(1,103)	(1,040)
Other liabilities	1,910	2,114	1,850	1,392	1,120
Total shareholders' equity	(77)	(51)	(52)	(73)	(7)

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

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

	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Incurred policy losses and benefits	\$ 302	\$ 342	\$ (351)	\$ 137	\$ 223
Net income	(196)	(222)	228	(89)	(145)

Consolidated
Balance Sheet:

Reserve for losses and loss expenses	880	578	236	587	450
Total shareholders' equity	(572)	(375)	(153)	(381)	(292)

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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

FORM 10-K/A : 39

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

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

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

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

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

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

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

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Muni Tender Option Bond Program: From 2000 through early 2003, AIG subsidiaries participated in a program in which they transferred highly rated municipal bonds at market value to a third-party broker, which in turn transferred these securities to a trust that the broker had established. The trust then issued two sets of beneficial interests. Half of the beneficial interests were floating interest rate certificates. The remaining beneficial interests were inverse floating interest rate certificates. Third parties invested in the floating interest rate certificates, and AIG subsidiaries invested in the inverse floating interest rate certificates. AIG did not consolidate the trust into AIG's balance sheet. The AIG subsidiaries, as the holders of the residual interest inverse floating rate certificates, had the right to unilaterally liquidate the trust and cause the municipal bonds to be returned to AIG on short notice. Accordingly, the AIG subsidiaries did not cede control over the bonds. As a result, AIG now believes that the conclusion not to consolidate was an error in the application of GAAP. Therefore, AIG has now consolidated the trusts into its balance sheets at December 31, 2002, 2001 and 2000. The consolidations had no effect on consolidated shareholders' equity but had

40 : FORM 10-K/A

American International Group, Inc. and Subsidiaries

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

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

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

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

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

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

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

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

FORM 10-K/A : 41

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

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

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

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

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

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

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

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

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(in millions)

	2004	2003	2002	2001	2000
Consolidated Statement of Income:					
Premiums and other considerations	\$	\$	\$ (43)	\$	\$ 1
Realized capital gains (losses)	116	19	48	66	58
Incurring policy losses and benefits			130		192
Insurance acquisition and other operating expenses	(6)	(2)	1		
Net income	79	20	(65)	66	(133)

**Consolidated
Balance Sheet:**