

AMERICAN INTERNATIONAL GROUP INC

Form 10-Q/A

June 19, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended **June 30, 2005**

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
(State or other jurisdiction of
incorporation or organization)

13-2592361
(I.R.S. Employer
Identification No.)

70 Pine Street, New York, New York
(Address of principal executive offices)

10270
(Zip Code)

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

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

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

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. 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of June 30, 2005: **2,595,079,838.**

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American International Group, Inc. and Subsidiaries

Explanatory Note

Overview. This amendment to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (Second Quarter Form 10-Q/A) is being filed for purposes of amending Items 1, 2, 3 and 4 of Part I and Item 6 of Part II of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2005 (Second Quarter Form 10-Q) of American International Group, Inc. (AIG), which was originally filed on August 9, 2005, and provides information about the financial results for the three and six month periods ended June 30, 2005 and 2004 as restated for the restatements described in AIG's Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Annual Report on Form 10-K). Information in this Second Quarter Form 10-Q/A is generally stated as of June 30, 2005 and generally does not reflect any subsequent information or events other than the restatements, except that certain forward looking statements throughout this Second Quarter Form 10-Q/A have been revised to reflect events and developments subsequent to June 30, 2005. Information regarding subsequent periods with respect to AIG is contained in the 2005 Annual Report on Form 10-K and other filings with the Securities and Exchange Commission (SEC). This filing should be considered, and read, in conjunction with such filings.

First Restatement. In connection with the preparation of AIG's consolidated financial statements included in AIG's Annual Report on Form 10-K for the year ended December 31, 2004 (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 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).

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 control over financial reporting, 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 (Second Quarter Form 10-Q). The adjustments to correct the foregoing errors are referred to in this Second Quarter Form 10-Q/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal control over financial reporting referred to above, AIG identified certain additional errors, principally relating to internal control over reconciliation of certain balance sheet accounts in the Domestic Brokerage Group (DBG). As a result, AIG included 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 in the restated consolidated financial statements included in this Second Quarter Form 10-Q/A. 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 Second Quarter Form 10-Q/A has been restated as part of the First Restatement and the Second Restatement (the Restatements). Only restated financial information that is being presented for the first time in this Second Quarter Form 10-Q/A is identified herein as Restated. All previously presented, restated financial information is identified as such in the respective SEC filing in which the information was restated.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET*(in millions) (unaudited)*

	June 30, 2005 (Restated)	December 31, 2004
Assets:		
Investments and financial services assets:		
Fixed maturities:		
Bonds available for sale, at market value (amortized cost: 2005 \$342,520; 2004 \$329,838)	\$ 361,100	\$ 344,399
Bonds held to maturity, at amortized cost (market value: 2005 \$22,350; 2004 \$18,791)	21,472	18,294
Bond trading securities, at market value (cost: 2005 \$3,557; 2004 \$2,973)	3,579	2,984
Equity securities:		
Common stocks available for sale, at market value (cost: 2005 \$9,419; 2004 \$8,424)	11,003	9,772
Common stocks trading, at market value (cost: 2005 \$6,671; 2004 \$5,651)	7,074	5,894
Preferred stocks, at market value (cost: 2005 \$2,335; 2004 \$2,017)	2,444	2,040
Mortgage loans on real estate, net of allowance (2005 \$57; 2004 \$65)	14,251	13,146
Policy loans	7,100	7,035
Collateral and guaranteed loans, net of allowance (2005 \$16; 2004 \$18)	3,295	3,303
Financial services assets:		
Flight equipment primarily under operating leases, net of accumulated depreciation (2005 \$6,790; 2004 \$6,390)	35,690	32,130
Securities available for sale, at market value (cost: 2005 \$32,527; 2004 \$29,171)	33,120	31,225
Trading securities, at market value	3,927	2,746
Spot commodities	454	534
Unrealized gain on swaps, options and forward transactions	21,388	22,670
Trading assets	2,055	3,433
Securities purchased under agreements to resell, at contract value	12,576	26,272
Finance receivables, net of allowance (2005 \$584; 2004 \$571)	26,763	23,574
Securities lending collateral, at market value (which approximates cost)	56,325	49,169
Other invested assets	26,311	23,559
Short-term investments, at cost (approximates market value)	17,465	16,102
Total investments and financial services assets	667,392	638,281
Cash	1,738	2,009
Investment income due and accrued	5,647	5,556
Premiums and insurance balances receivable, net of allowance (2005 \$748; 2004 \$690)	15,806	15,622
Reinsurance assets, net of allowance (2005 \$840; 2004 \$832)	19,476	19,613
Deferred policy acquisition costs	30,909	29,817
Investments in partially owned companies	1,389	1,495
Real estate and other fixed assets, net of accumulated depreciation (2005 \$4,801; 2004 \$4,650)	6,225	6,192
Separate and variable accounts	58,463	57,741
Goodwill	8,378	8,556
Income taxes receivable - current	772	138
Other assets	14,972	16,125
Total assets	\$ 831,167	\$ 801,145

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEET *(continued)**(in millions, except share data) (unaudited)*

	June 30, 2005 (Restated)	December 31, 2004
Liabilities:		
Reserve for losses and loss expenses	\$ 64,829	\$ 61,878
Reserve for unearned premiums	24,435	23,400
Future policy benefits for life and accident and health insurance contracts	108,192	104,740
Policyholders' contract deposits	225,619	216,474
Other policyholders' funds	10,332	10,280
Reserve for commissions, expenses and taxes	4,748	4,629
Insurance balances payable	3,932	3,661
Funds held by companies under reinsurance treaties	3,780	3,404
Deferred income taxes payable	9,259	6,588
Financial services liabilities:		
Borrowings under obligations of guaranteed investment agreements	20,799	18,919
Securities sold under agreements to repurchase, at contract value	10,497	23,581
Trading liabilities	2,236	2,503
Securities and spot commodities sold but not yet purchased, at market value	4,870	5,404
Unrealized loss on swaps, options and forward transactions	13,915	15,985
Trust deposits and deposits due to banks and other depositors	4,154	4,248
Commercial paper	8,980	6,724
Notes, bonds, loans and mortgages payable	63,077	61,296
Commercial paper	3,884	2,969
Notes, bonds, loans and mortgages payable	5,274	5,502
Liabilities connected to trust preferred stock	1,489	1,489
Separate and variable accounts	58,463	57,741
Minority interest	5,368	4,831
Securities lending payable	57,128	49,972
Other liabilities	27,098	25,055
Total liabilities	742,358	721,273
Preferred shareholders' equity in subsidiary companies	196	199
Commitments and Contingent Liabilities (See Note 7)		
Shareholders' equity:		
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued 2005 2,751,327,476; 2004 2,751,327,476	6,878	6,878
Additional paid-in capital	2,182	2,094
Retained earnings	70,985	63,468
Accumulated other comprehensive income (loss)	10,869	9,444
Treasury stock, at cost; 2005 156,247,638; 2004 154,904,286 shares of common stock	(2,301)	(2,211)
Total shareholders' equity	88,613	79,673
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	831,167	\$ 801,145

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF INCOME*(in millions, except per share data) (unaudited)*

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004	2005 (Restated)	2004
Revenues:				
Premiums and other considerations	\$ 35,216	\$ 32,154	\$ 17,536	\$ 16,175
Net investment income	10,559	9,141	5,227	4,541
Realized capital gains (losses)	12	3	(125)	89
Other revenues	9,318	6,013	5,265	3,284
Total revenues	55,105	47,311	27,903	24,089
Benefits and expenses:				
Incurred policy losses and benefits	29,156	27,070	14,283	13,480
Insurance acquisition and other operating expenses	13,599	11,750	6,919	5,960
Total benefits and expenses	42,755	38,820	21,202	19,440
Income before income taxes, minority interest and cumulative effect of an accounting change	12,350	8,491	6,701	4,649
Income taxes (benefits):				
Current	1,983	2,437	1,015	1,092
Deferred	1,806	157	1,068	372
	3,789	2,594	2,083	1,464
Income before minority interest and cumulative effect of an accounting change	8,561	5,897	4,618	3,185
Minority interest	(273)	(175)	(129)	(105)
Income before cumulative effect of an accounting change	8,288	5,722	4,489	3,080
Cumulative effect of an accounting change, net of tax		(144)		
Net income	\$ 8,288	\$ 5,578	\$ 4,489	\$ 3,080
Earnings per common share:				
Basic				
Income before cumulative effect of an accounting change	\$ 3.19	\$ 2.20	\$ 1.73	\$ 1.19
Cumulative effect of an accounting change, net of tax		(0.06)		
Net income	\$ 3.19	\$ 2.14	\$ 1.73	\$ 1.19
Diluted				
Income before cumulative effect of an accounting change	\$ 3.16	\$ 2.17	\$ 1.71	\$ 1.17

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Cumulative effect of an accounting change, net of tax			(0.06)		
Net income	\$	3.16	\$ 2.11	\$	1.71 \$ 1.17
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Dividends declared per common share	\$	0.300	\$ 0.140	\$	0.125 \$ 0.075
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Average shares outstanding:					
Basic		2,596	2,609		2,596 2,608
Diluted		2,623	2,641		2,623 2,640
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See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS*(in millions) (unaudited)*

Six Months Ended June 30,	2005 (Restated)	2004 (Restated)
Summary:		
Net cash provided by operating activities	\$ 13,817	\$ 11,886
Net cash used in investing activities	(35,358)	(50,707)
Net cash provided by financing activities	22,097	39,807
Effect of exchange rate changes on cash	(827)	125
Change in cash	(271)	1,111
Cash at beginning of period	2,009	922
Cash at end of period	\$ 1,738	\$ 2,033
Cash flows from operating activities:		
Net income	\$ 8,288	\$ 5,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Change in:		
General and life insurance reserves	7,562	10,357
Premiums and insurance balances receivable and payable net	87	(1,159)
Reinsurance assets	137	213
Deferred policy acquisition costs	(1,267)	(1,504)
Investment income due and accrued	(91)	(378)
Funds held under reinsurance treaties	376	376
Other policyholders funds	52	415
Current and deferred income taxes net	1,170	1,256
Reserve for commissions, expenses and taxes	119	(503)
Other assets and liabilities net	(476)	(456)
Bonds and common stocks trading, at market value	(1,775)	(1,277)
Trading assets and liabilities net	1,111	(341)
Trading securities, at market value	(1,181)	(156)
Spot commodities	80	(440)
Net unrealized (gain) loss on swaps, options and forward transactions	(788)	529
Securities purchased under agreements to resell	13,696	(2,490)
Securities sold under agreements to repurchase	(13,084)	1,974
Securities and spot commodities sold but not yet purchased, at market value	(534)	(434)
Realized capital (gains) losses	(12)	(3)
Equity in income of partially owned companies and other invested assets	(899)	(637)
Amortization of premium and discount on securities	187	115
Depreciation expenses, principally flight equipment	836	997

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Provision for finance receivable losses	175	186
Other net	48	(332)
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Total adjustments	5,529	6,308
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Net cash provided by operating activities	\$ 13,817	\$ 11,886
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See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)**(in millions) (unaudited)*

Six Months Ended June 30,	2005 (Restated)	2004 (Restated)
Cash flows from investing activities:		
Cost of bonds, at market sold	\$ 62,719	\$ 63,968
Cost of bonds, at market matured or redeemed	7,717	6,867
Cost of equity securities sold	5,896	6,648
Realized capital gains (losses)	12	3
Purchases of fixed maturities	(86,153)	(95,829)
Purchases of equity securities	(7,151)	(6,788)
Mortgage, policy and collateral loans granted	(2,702)	(875)
Repayments of mortgage, policy and collateral loans	1,520	1,074
Sales of securities available for sale	1,949	1,058
Maturities of securities available for sale	2,451	2,097
Purchases of securities available for sale	(7,350)	(5,003)
Sales of flight equipment	243	1,127
Purchases of flight equipment	(4,243)	(3,299)
Change in securities lending collateral	(7,156)	(16,698)
Net additions to real estate and other fixed assets	(400)	(337)
Sales or distributions of other invested assets	5,835	4,581
Investments in other invested assets	(7,169)	(6,375)
Change in short-term investments	1,992	1
Investments in partially owned companies	(3)	(1)
Finance receivable originations and purchases	(23,778)	(11,756)
Finance receivable principal payments received	20,413	8,830
Net cash used in investing activities	\$ (35,358)	\$ (50,707)
Cash flows from financing activities:		
Receipts from policyholders contract deposits	\$ 26,038	\$ 27,129
Withdrawals from policyholders contract deposits	(17,032)	(11,026)
Change in trust deposits and deposits due to banks and other depositors	(94)	210
Change in commercial paper	3,171	2,712
Proceeds from notes, bonds, loans and mortgages payable	25,645	14,837
Repayments on notes, bonds, loans and mortgages payable	(23,903)	(11,272)
Proceeds from guaranteed investment agreements	6,760	4,318
Maturities of guaranteed investment agreements	(4,880)	(3,171)
Change in securities lending payable	7,156	16,698
Proceeds from common stock issued	36	90
Cash dividends to shareholders	(641)	(339)
Acquisition of treasury stock	(168)	(380)
Other net	9	1

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Net cash provided by financing activities	\$	22,097	\$	39,807
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Supplementary information:				
Taxes paid	\$	1,466	\$	1,657
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Interest paid	\$	2,649	\$	2,139
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See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)*(in millions) (unaudited)*

	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004	2005 (Restated)	2004
Comprehensive income (loss):				
Net income	\$ 8,288	\$ 5,578	\$ 4,489	\$ 3,080
Other comprehensive income (loss):				
Unrealized appreciation (depreciation) of investments net of reclassification adjustments	2,282	(5,865)	4,817	(10,411)
Deferred income tax (expense) benefit on above changes	(503)	2,033	(1,759)	3,469
Foreign currency translation adjustments	(826)	120	(773)	(182)
Applicable income tax benefit (expense) on above changes	501	(17)	497	17
Net derivative gains (losses) arising from cash flow hedging activities	70	64	(80)	43
Deferred income tax (expense) benefit on above changes	(71)	(13)	40	(16)
Retirement plan liabilities adjustment, net of tax	(28)	(9)	2	18
Other comprehensive income (loss)	1,425	(3,687)	2,744	(7,062)
Comprehensive income (loss)	\$ 9,713	\$ 1,891	\$ 7,233	\$ (3,982)

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Financial Statement Presentation

These statements are unaudited. In the opinion of management, adjustments including normal recurring accruals have been made for a fair statement of the results presented herein. Intercompany accounts and transactions have been eliminated. Certain accounts have been reclassified in the 2004 financial statements to conform to their 2005 presentation. For further information, refer to the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2005 (2005 Annual Report on Form 10-K).

As more fully described in AIG's 2004 Annual Report on Form 10-K for the year ended December 31, 2004, which was originally filed May 31, 2005 (2004 Annual Report on Form 10-K), and AIG's Forms 10-Q/A for the quarterly periods ended March 31, 2004 and June 30, 2004, AIG restated the accounting for certain transactions and certain relationships for the quarters ended March 31, 2004 and June 30, 2004, as part of the restatement of 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 (the First 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 control over financial reporting, 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. Due to the significance of these corrections, AIG restated its consolidated financial statements 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 the first three quarters of 2005 (the Second Restatement, and together with the First Restatement, the Restatements). As part of the Second Restatement, AIG also corrected errors that have been 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 as an out-of-period item in AIG's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (Second Quarter Form 10-Q).

**2. Restatements of Previously Issued
Financial Statements**

The following provides a description of the accounting adjustments included in the Restatements of AIG's consolidated financial statements and the effect of the adjustments on AIG's Consolidated Balance Sheet at June 30, 2005 and December 31, 2004 and its Consolidated Statement of Income for the three and six month periods ended June 30, 2005 and 2004 and Consolidated Statement of Cash Flows for the six months ended June 30, 2005 and 2004. All prior period amounts included in this report affected by the Restatements are presented on a restated basis.

(a) 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 control over financial reporting.

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

(b) Second Restatement

As announced on November 9, 2005, AIG identified certain additional errors, the preponderance of which were identified during the remediation of the material weaknesses in internal control over financial reporting, 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

AIG also announced it was correcting errors that were identified since the First Restatement, including those relating to the accounting for certain payments received from aircraft and engine manufacturers by ILFC, which were originally corrected in AIG's Second Quarter Form 10-Q. The adjustments to correct the foregoing errors are referred to in this Second Quarter Form 10-Q/A as the Initial Adjustments.

In connection with the remediation of material weaknesses in internal control over financial reporting referred to above, AIG identified certain additional errors, principally relating to internal controls over reconciliation of certain balance sheet accounts in DBG. As a result, AIG included 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 is restating 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 will not be amended because the Additional Adjustments to the financial statements included therein are not material to those financial statements.

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

Accounting for Derivatives (FAS 133 Hedge Accounting). During the third quarter of 2005, AIG identified and corrected additional errors identified during the remediation of the previously disclosed material weakness in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133.

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

The Initial Adjustments to reflect appropriate GAAP accounting for these derivatives and related assets and liabilities, including related currency translation gains and losses, increased net income by approximately \$241 million and \$311 million and by approximately \$465 million and \$437 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and increased total shareholders' equity by approximately \$367 million as of December 31, 2004.

Asset Realization – Domestic Brokerage Group (DBG) Issues. During the third quarter of 2005, AIG concluded that additional adjustments should be made to the value of certain DBG reserves and allowances for doubtful accounts for time periods prior to January 1, 2003, resulting in an after-tax reduction in total shareholders' equity at December 31, 2004 of approximately \$205 million. The adjustments had no effect on net income for the three and six month periods ended June 30, 2005 and 2004.

Income Tax Accounting. During the third quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The most significant adjustment resulted from AIG incorrectly recording the income tax benefit resulting from employee exercises of stock options as a reduction in income tax expense rather than as an increase in additional paid-in capital as required by GAAP. This adjustment has no effect on total shareholders' equity. The effect of the income tax adjustments was to increase total tax expense by approximately \$99 million and \$135 million and by approximately \$5 million and \$10 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and to increase total shareholders' equity as of December 31, 2004 by approximately \$131 million.

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

American International Group, Inc. and Subsidiaries

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

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

Although ILFC restated its financial statements for the years 2000 through 2004 and for the quarter ended March 31, 2005 to correct its accounting for the payments from aircraft and engine manufacturers described above, AIG had previously considered these adjustments not to be sufficiently material to require correction by restatement in AIG's consolidated financial statements. The effect of the adjustments included in the Second Restatement relating to the manufacturers' payments was to increase other revenues and net income by approximately \$755 million and \$334 million and by approximately \$724 million and \$322 million for the three and six month periods ended June 30, 2005, respectively, and decrease other revenues and net income by approximately \$32 million and \$14 million and by approximately \$50 million and \$18 million for the three and six month periods ended June 30, 2004, respectively.

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

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

The Additional Adjustments to reflect the asset realization and revenue recognition revisions increased net income by approximately \$14 million and \$13 million and by approximately \$18 million and \$18 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and decreased total shareholders' equity by approximately \$543 million and \$534 million as of June 30, 2005 and December 31, 2004, respectively.

Accounting for Derivatives and Related Assets and Liabilities (FAS 133 Hedge Accounting). During the fourth quarter of 2005, AIG identified and corrected additional errors identified during the remediation of the previously disclosed material weaknesses in internal controls surrounding accounting for derivatives and related assets and liabilities under FAS 133.

The Additional Adjustments to reflect appropriate GAAP accounting for these derivatives which also included related currency translation gains and losses, decreased other revenue by approximately \$13 million and increased other revenue by approximately \$66 million and decreased other revenue by approximately \$47 million and \$73 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and decreased net income by approximately \$31 million and \$20 million and by approximately \$28 million and \$42 million for the three and six month periods ended June 30, 2005 and 2004, respectively. The additional adjustments also decreased total shareholders' equity by approximately \$19 million and \$65 million as of June 30, 2005 and December 31, 2004, respectively.

Income Tax Accounting. During the fourth quarter of 2005, AIG identified and corrected additional errors in its income tax accounting. The income tax adjustments decreased income tax expense and increased net income by approximately \$22 million and \$46 million and increased income tax expense and decreased net income by approximately \$15 million and \$28 million for the three and six month periods ended June 30, 2005 and 2004, respectively, and increased total shareholders' equity by approximately \$6 million and decreased total shareholders' equity by approximately \$98 million as of June 30, 2005 and December 31, 2004, respectively.

Statement of Cash Flows Classification of Certain Trading Securities. AIG identified and corrected the classification of certain trading securities activity from investing activities to operating activities.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

CONSOLIDATED BALANCE SHEET

	June 30, 2005		December 31, 2004
	As Previously Reported	As Restated	
<i>(in millions) (unaudited)</i>			
Assets:			
Investments and financial services assets:			
Fixed maturities:			
Bonds available for sale, at market value	\$ 361,100	\$ 361,100	\$ 344,399
Bonds held to maturity, at amortized cost	21,472	21,472	18,294
Bond trading securities, at market value	3,579	3,579	2,984
Equity securities:			
Common stocks available for sale, at market value	11,148	11,003	9,772
Common stocks trading, at market value	7,074	7,074	5,894
Preferred stocks, at market value	2,444	2,444	2,040
Mortgage loans on real estate, net of allowance	14,251	14,251	13,146
Policy loans	7,100	7,100	7,035
Collateral and guaranteed loans, net of allowance	2,215	3,295	3,303
Financial services assets:			
Flight equipment primarily under operating leases, net of accumulated depreciation	35,689	35,690	32,130
Securities available for sale, at market value	33,056	33,120	31,225
Trading securities, at market value	4,318	3,927	2,746
Spot commodities	31	454	534
Unrealized gain on swaps, options and forward transactions	21,388	21,388	22,670
Trading assets	1,931	2,055	3,433
Securities purchased under agreements to resell, at contract value	12,576	12,576	26,272
Finance receivables, net of allowance	26,763	26,763	23,574
Securities lending collateral, at market value (which approximates cost)	57,128	56,325	49,169
Other invested assets	25,001	26,311	23,559
Short-term investments, at cost	17,465	17,465	16,102
Total investments and financial services assets	665,729	667,392	638,281
Cash	1,738	1,738	2,009
Investment income due and accrued	5,676	5,647	5,556
Premiums and insurance balances receivable, net of allowance	15,313	15,806	15,622
Reinsurance assets, net of allowance	19,824	19,476	19,613
Deferred policy acquisition costs	30,812	30,909	29,817
Investments in partially owned companies	1,310	1,389	1,495
Real estate and other fixed assets, net of accumulated depreciation	6,225	6,225	6,192
Separate and variable accounts	58,463	58,463	57,741
Goodwill	8,423	8,378	8,556
Income taxes receivable - current	924	772	138
Other assets	14,205	14,972	16,125
Total assets	\$ 828,642	\$ 831,167	\$ 801,145

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

<i>(in millions) (unaudited)</i>	June 30, 2005		December 31, 2004
	As Previously Reported	As Restated	
Liabilities:			
Reserve for losses and loss expenses	\$ 65,327	\$ 64,829	\$ 61,878
Reserve for unearned premiums	24,077	24,435	23,400
Future policy benefits for life and accident and health insurance contracts	108,208	108,192	104,740
Policyholders' contract deposits	225,839	225,619	216,474
Other policyholders' funds	10,332	10,332	10,280
Reserve for commissions, expenses and taxes	4,754	4,748	4,629
Insurance balances payable	3,968	3,932	3,661
Funds held by companies under reinsurance treaties	3,780	3,780	3,404
Deferred income taxes payable	9,657	9,259	6,588
Financial services liabilities:			
Borrowings under obligations of guaranteed investment agreements	20,799	20,799	18,919
Securities sold under agreements to repurchase, at contract value	8,303	10,497	23,581
Trading liabilities	2,037	2,236	2,503
Securities and spot commodities sold but not yet purchased, at market value	4,343	4,870	5,404
Unrealized loss on swaps, options and forward transactions	15,447	13,915	15,985
Trust deposits and deposits due to banks and other depositors	4,154	4,154	4,248
Commercial paper	8,980	8,980	6,724
Notes, bonds, loans and mortgages payable	62,673	63,077	61,296
Commercial paper	3,884	3,884	2,969
Notes, bonds, loans and mortgages payable	5,274	5,274	5,502
Liabilities connected to trust preferred stock	1,489	1,489	1,489
Separate and variable accounts	58,463	58,463	57,741
Minority interest	5,119	5,368	4,831
Securities lending payable	57,128	57,128	49,972
Other liabilities	25,532	27,098	25,055
Total liabilities	739,567	742,358	721,273
Preferred shareholders' equity in subsidiary companies	196	196	199
Shareholders' equity:			
Common stock	6,878	6,878	6,878
Additional paid-in capital	2,069	2,182	2,094
Retained earnings	71,428	70,985	63,468
Accumulated other comprehensive income (loss)	10,805	10,869	9,444
Treasury stock, at cost	(2,301)	(2,301)	(2,211)
Total shareholders' equity	88,879	88,613	79,673
Total liabilities, preferred shareholders' equity in subsidiary companies and shareholders' equity	\$ 828,642	\$ 831,167	\$ 801,145

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued**Financial Statements** *(continued)***CONSOLIDATED STATEMENT OF INCOME**

	For the Six Months Ended June 30, 2005		For the Six Months Ended June 30, 2004	For the Three Months Ended June 30, 2005		For the Three Months Ended June 30, 2004
	As Previously Reported	As Restated		As Previously Reported	As Restated	
<i>(in millions, except per share data)</i> <i>(unaudited)</i>						
Revenues:						
Premiums and other considerations	\$ 35,223	\$ 35,216	\$ 32,154	\$ 17,541	\$ 17,536	\$ 16,175
Net investment income	10,490	10,559	9,141	5,198	5,227	4,541
Realized capital gains (losses)	333	12	3	245	(125)	89
Other revenues	7,927	9,318	6,013	3,877	5,265	3,284
Total revenues	53,973	55,105	47,311	26,861	27,903	24,089
Benefits and expenses:						
Incurred policy losses and benefits	29,201	29,156	27,070	14,336	14,283	13,480
Insurance acquisition and other operating expenses	13,534	13,599	11,750	6,730	6,919	5,960
Total benefits and expenses	42,735	42,755	38,820	21,066	21,202	19,440
Income before income taxes, minority interest and cumulative effect of an accounting change	11,238	12,350	8,491	5,795	6,701	4,649
Income taxes (benefits):						
Current	1,777	1,983	2,437	790	1,015	1,092
Deferred	1,510	1,806	157	884	1,068	372
	3,287	3,789	2,594	1,674	2,083	1,464
Income before minority interest and cumulative effect of an accounting change	7,951	8,561	5,897	4,121	4,618	3,185
Minority interest	(275)	(273)	(175)	(129)	(129)	(105)
Income before cumulative effect of an accounting change	7,676	8,288	5,722	3,992	4,489	3,080
Cumulative effect of an accounting change, net of tax			(144)			
Net income	\$ 7,676	\$ 8,288	\$ 5,578	\$ 3,992	\$ 4,489	\$ 3,080
Earnings per common share:						
Basic						
Income before cumulative effect of an accounting change	\$ 2.96	\$ 3.19	\$ 2.20	\$ 1.54	\$ 1.73	\$ 1.19

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Cumulative effect of an accounting change, net of tax			(0.06)				
Net income	\$ 2.96	\$ 3.19	\$ 2.14	\$ 1.54	\$ 1.73		\$ 1.19
Diluted							
Income before cumulative effect of an accounting change	\$ 2.93	\$ 3.16	\$ 2.17	\$ 1.53	\$ 1.71		\$ 1.17
Cumulative effect of an accounting change, net of tax			(0.06)				
Net income	\$ 2.93	\$ 3.16	\$ 2.11	\$ 1.53	\$ 1.71		\$ 1.17
Dividends declared per common share	\$ 0.300	\$ 0.300	\$ 0.140	\$ 0.125	\$ 0.125		\$ 0.075
Average shares outstanding:							
Basic	2,596	2,596	2,609	2,596	2,596		2,608
Diluted	2,623	2,623	2,641	2,623	2,623		2,640

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

2. Restatement of Previously Issued**Financial Statements** *(continued)***CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	Six Months Ended June 30, 2005		Six Months Ended June 30, 2004
	As Previously Reported	As Restated	
<i>(in millions) (unaudited)</i>			
Net cash provided by operating activities	\$ 13,605	\$ 13,817	\$ 11,886
Net cash used in investing activities	(29,244)	(35,358)	(50,707)
Net cash provided by financing activities	16,212	22,097	39,807
Effect of exchange rate changes on cash	(844)	(827)	125
Change in cash	(271)	(271)	1,111
Cash at beginning of period	2,009	2,009	922
Cash at end of period	\$ 1,738	\$ 1,738	\$ 2,033

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

For the Six Months Ended June 30, 2005 <i>(in millions) (unaudited)</i>	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	\$ 35,223	\$ 10,490	\$ 333	\$ 7,927	\$ 53,973
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)		9	(202)	597	404
Manufacturers Payment Received by ILFC				724	724
All Other Adjustments Net	3	68	6	3	80
Total Initial Adjustments in the Second Restatement	3	77	(196)	1,324	1,208
Revenues, as Restated in the Initial Adjustments	35,226	10,567	137	9,251	55,181
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(8)	36			28
All Other Adjustments Net	(2)	(44)	(125)	67	(104)
	(10)	(8)	(125)	67	(76)

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Total Additional
Adjustments in the
Second Restatement

Revenues, as Restated in the Second Restatement	\$	35,216	\$	10,559	\$	12	\$	9,318	\$	55,105
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Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

For the Six Months Ended June 30, 2004 <i>(in millions) (unaudited)</i>	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	\$ 32,460	\$ 9,376	\$ (60)	\$ 5,670	\$ 47,446
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	193	130	(24)		299
Other Risk Transfer	(126)	(4)			(130)
Net Investment Income:					
Covered Calls		19	41		60
Synthetic Fuel Investment		(135)		(98)	(233)
Hedge Fund Accounting		24		(17)	7
Muni Tender Option Bond Program		40	19		59
DBG/AIG Capital Corporation Intercompany Dividend		(50)			(50)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	69	(190)	43	38	(40)
Conversion of Underwriting Losses to Capital Losses			92		92
Asset Realization:					
Other Than Temporary Declines			40		40
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			(83)	(234)	(317)
Foreign Currency Translation (FAS 52)			(27)		(27)
Life Settlements	(375)	(72)			(447)
Commutations	3				3
Dollar Roll Transactions			(67)		(67)
All Other Adjustments Net	(46)	(72)		303	185
Total Adjustments in the First Restatement	(282)	(310)	34	(8)	(566)
As Adjusted in the First Restatement	32,178	9,066	(26)	5,662	46,880
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			27	443	470
Manufacturers Payments Received by ILFC				(50)	(50)
All Other Adjustments Net	3	(4)		5	4
Total Initial Adjustments in the Second Restatement	3	(4)	27	398	424

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Revenues, as Restated in the Initial Adjustments	32,181	9,062	1	6,060	47,304
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(34)	77			43
All Other Adjustments Net	7	2	2	(47)	(36)
Total Additional Adjustments in the Second Restatement					
	(27)	79	2	(47)	7
Revenues, as Restated in the Second Restatement	\$ 32,154	\$ 9,141	\$ 3	\$ 6,013	\$ 47,311

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

For the Six Months Ended June 30, 2005 <i>(in millions) (unaudited)</i>	Incurred Policy Losses and Benefits	Insurance Acquisition and Other Operating Expenses	Total Benefits and Expenses
As Previously Reported	\$ 29,201	\$ 13,534	\$ 42,735
Initial Adjustments in the Second Restatement:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		(116)	(116)
Manufacturers Payments Received by ILFC		228	228
All Other Adjustments Net	(39)	(61)	(100)
<hr/>			
Total Initial Adjustments in the Second Restatement	(39)	51	12
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Revenues, as Restated in the Initial Adjustments	29,162	13,585	42,747
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Additional Adjustments in the Second Restatement:			
Asset Realization:			
Domestic Brokerage Group (DBG) Issues	(6)	12	6
All Other Adjustments Net		2	2
<hr/>			
Total Additional Adjustments in the Second Restatement	(6)	14	8
<hr/>			
Revenues, as Restated in the Second Restatement	\$ 29,156	\$ 13,599	\$ 42,755

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

American International Group, Inc. and Subsidiaries

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

For the Six Months Ended June 30, 2004 (in millions) (unaudited)	Incurred Policy Losses and Benefits	Insurance Acquisition and Other Operating Expenses	Total Benefits and Expenses
As Previously Reported	\$ 27,275	\$ 11,491	\$ 38,766
Adjustments in the First Restatement:			
Risk Transfer:			
Union Excess	335	24	359
Other Risk Transfer	(68)	(24)	(92)
Loss Reserves	90		90
Net Investment Income:			
DBG/AIG Capital Corporation Intercompany Dividend		(50)	(50)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	30	(133)	(103)
Conversion of Underwriting Losses to Capital Losses		(2)	(2)
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		14	14
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		11	11
Foreign Currency Translation (FAS 52)		(6)	(6)
Life Settlements	(345)		(345)
Deferred Acquisition Costs (DAC)	(130)	155	25
SICO Deferred Compensation		28	28
Commutations	3		3
All Other Adjustments Net	(89)	359	270
Total Adjustments in the First Restatement			
	(174)	376	202
As Adjusted in the First Restatement	27,101	11,867	38,968
Initial Adjustments in the Second Restatement:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		(155)	(155)
Manufacturers Payments Received by ILFC		(22)	(22)
All Other Adjustments Net	6	6	12
Total Initial Adjustments in the Second Restatement			
	6	(171)	(165)
Benefits and Expenses, as Restated in the Initial Adjustments	27,107	11,696	38,803
Additional Adjustments in the Second Restatement:			
Asset Realization:			
Domestic Brokerage Group (DBG) Issues	(36)	51	15
All Other Adjustments Net	(1)	3	2
Total Additional Adjustments in the Second Restatement			
	(37)	54	17
Benefits and Expenses, as Restated in the Second Restatement	\$ 27,070	\$ 11,750	\$ 38,820

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

For the Six Months Ended June 30, <i>(in millions) (unaudited)</i>	2005	2004
Income Taxes, as Previously Reported	\$ 3,287	\$ 2,757
Adjustments in the First Restatement:		
Risk Transfer:		
Union Excess		(21)
Other Risk Transfer		(15)
Loss Reserves		(32)
Net Investment Income:		
Covered Calls		21
Synthetic Fuel Investment		(233)
Top Level Adjustments and Other Directed Entries (other than loss reserves)		22
Asset Realization:		
Domestic Brokerage Group (DBG) Issues		17
Other Than Temporary Declines		14
Other GAAP Corrections:		
Accounting for Derivatives (FAS 133 Hedge Accounting)		(115)
Accounting for Deferred Taxes		(14)
Foreign Currency Translation (FAS 52)		(9)
Life Settlements		(36)
Deferred Acquisition Costs (DAC)		(7)
All Other Adjustments Net		38
Total Adjustments in the First Restatement		(370)
Income Taxes, as Adjusted in the First Restatement	3,287	2,387
Initial Adjustments in the Second Restatement:		
Income Tax Accounting	135	10
All Other Adjustments Net	431	176
Total Initial Adjustments in the Second Restatement	566	186
Income Taxes, as Restated in the Initial Adjustments	3,853	2,573
Additional Adjustments in the Second Restatement:		
Income Tax Accounting	(46)	28
All Other Adjustments Net	(18)	(7)
Total Additional Adjustments in the Second Restatement	(64)	21
Income Taxes, as Restated in the Second Restatement	\$ 3,789	\$ 2,594

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

For the Three Months Ended June 30, 2005 <i>(in millions) (unaudited)</i>	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	\$ 17,541	\$ 5,198	\$ 245	\$ 3,877	\$ 26,861
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)		5	(305)	645	345
Manufacturers Payments Received by ILFC				755	755
All Other Adjustments Net	3	15	6		24
Total Initial Adjustments in the Second Restatement	3	20	(299)	1,400	1,124
Revenues, as Restated in the Initial Adjustments	17,544	5,218	(54)	5,277	27,985
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(7)	34			27
All Other Adjustments Net	(1)	(25)	(71)	(12)	(109)
Total Additional Adjustments in the Second Restatement	(8)	9	(71)	(12)	(82)
Revenues, as Restated in the Second Restatement	\$ 17,536	\$ 5,227	\$ (125)	\$ 5,265	\$ 27,903

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (continued)

American International Group, Inc. and Subsidiaries

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

For the Three Months Ended June 30, 2004 (in millions) (unaudited)	Premiums and Other Considerations	Net Investment Income	Realized Capital Gains (Losses)	Other Revenues	Total Revenues
As Previously Reported	\$ 16,321	\$ 4,656	\$ (143)	\$ 2,975	\$ 23,809
Adjustments in the First Restatement:					
Risk Transfer:					
Union Excess	96	65	(12)		149
Other Risk Transfer	(77)	(2)			(79)
Net Investment Income:					
Covered Calls		9	23		32
Synthetic Fuel Investment		(74)		(44)	(118)
Hedge Fund Accounting		11			11
Muni Tender Option Bond Program		19	11		30
DBG/AIG Capital Corporation Intercompany Dividend		(25)			(25)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	25	(91)	21	26	(19)
Conversion of Underwriting Losses to Capital Losses			19		19
Other GAAP Corrections:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			(2)	(154)	(156)
Foreign Currency Translation (FAS 52)			47		47
Life Settlements	(179)	(33)			(212)
Commutations	43				43
Dollar Roll Transactions			(105)		(105)
All Other Adjustments Net	(33)	(44)		156	79
Total Adjustments in the First Restatement					
	(125)	(165)	2	(16)	(304)
As Adjusted in the First Restatement	16,196	4,491	(141)	2,959	23,505
Initial Adjustments in the Second Restatement:					
Accounting for Derivatives (FAS 133 Hedge Accounting)			222	390	612
Manufacturers Payments Received by ILFC				(32)	(32)
All Other Adjustments Net	1	(2)		2	1
Total Initial Adjustments in the Second Restatement					
	1	(2)	222	360	581
Revenues, as Restated in the Initial Adjustments	16,197	4,489	81	3,319	24,086
Additional Adjustments in the Second Restatement:					
Asset Realization:					
Domestic Brokerage Group (DBG) Issues	(27)	51			24
All Other Adjustments Net	5	1	8	(35)	(21)

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Total Additional Adjustments in the Second Restatement	(22)	52	8	(35)	3
Revenues, as Restated in the Second Restatement	\$ 16,175	\$ 4,541	\$ 89	\$ 3,284	\$ 24,089

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

For the Three Months Ended June 30, 2005 <i>(in millions) (unaudited)</i>	Incurred Policy Losses and Benefits	Insurance Acquisition and Other Operating Expenses	Total Benefits and Expenses
As Previously Reported	\$ 14,336	\$ 6,730	\$ 21,066
Initial Adjustments in the Second Restatement:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		(51)	(51)
Manufacturers Payments Received by ILFC		240	240
All Other Adjustments Net	(42)	(12)	(54)
Total Initial Adjustments in the Second Restatement	(42)	177	135
Benefits and Expenses, as Restated in the Initial Adjustments	14,294	6,907	21,201
Additional Adjustments in the Second Restatement:			
Asset Realization:			
Domestic Brokerage Group (DBG) Issues	(7)	11	4
All Other Adjustments Net	(4)	1	(3)
Total Additional Adjustments in the Second Restatement	(11)	12	1
Benefits and Expenses, as Restated in the Second Restatement	\$ 14,283	\$ 6,919	\$ 21,202

For the Three Months Ended June 30, 2004 <i>(in millions) (unaudited)</i>	Incurred Policy Losses and Benefits	Insurance Acquisition and Other Operating Expenses	Total Benefits and Expenses
As Previously Reported	\$ 13,541	\$ 5,879	\$ 19,420
Adjustments in the First Restatement:			
Risk Transfer:			
Union Excess	167	12	179
Other Risk Transfer	(21)	(8)	(29)
Loss Reserves	30		30
Net Investment Income:			
DBG/AIG Capital Corporation Intercompany Dividend		(25)	(25)
Top Level Adjustments and Other Directed Entries (other than loss reserves)	5	(65)	(60)
Conversion of Underwriting Losses to Capital Losses		(1)	(1)
Asset Realization:			
Domestic Brokerage Group (DBG) Issues		(33)	(33)
Other GAAP Corrections:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		31	31
Foreign Currency Translation (FAS 52)		(8)	(8)
Life Settlements	(165)		(165)
Deferred Acquisition Costs (DAC)	(56)	50	(6)
SICO Deferred Compensation		14	14
Commutations	43		43

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All Other Adjustments Net	(40)	182	142
Total Adjustments in the First Restatement	(37)	149	112
As Adjusted in the First Restatement	13,504	6,028	19,532
Initial Adjustments in the Second Restatement:			
Accounting for Derivatives (FAS 133 Hedge Accounting)		(89)	(89)
Manufacturers Payments Received by ILFC		(11)	(11)
All Other Adjustments Net	4	5	9
Total Initial Adjustments in the Second Restatement	4	(95)	(91)
Benefits and Expenses, as Restated in the Initial Adjustments	13,508	5,933	19,441
Additional Adjustments in the Second Restatement:			
Asset Realization:			
Domestic Brokerage Group (DBG) Issues	(29)	25	(4)
All Other Adjustments Net	1	2	3
Total Additional Adjustments in the Second Restatement	(28)	27	(1)
Benefits and Expenses, as Restated in the Second Restatement	\$ 13,480	\$ 5,960	\$ 19,440

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

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

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

For the Three Months Ended June 30, <i>(in millions) (unaudited)</i>	2005	2004
Income Taxes, as Previously Reported	\$ 1,674	\$ 1,401
Adjustments in the First Restatement:		
Risk Transfer:		
Union Excess		(10)
Other Risk Transfer		(17)
Loss Reserves		(11)
Net Investment Income:		
Covered Calls		11
Synthetic Fuel Investment		(118)
Top Level Adjustments and Other Directed Entries (other than loss reserves)		14
Asset Realization:		
Domestic Brokerage Group (DBG) Issues		12
Other GAAP Corrections:		
Accounting for Derivatives (FAS 133 Hedge Accounting)		(66)
Accounting for Deferred Taxes		(10)
Foreign Currency Translation (FAS 52)		17
Life Settlements		(16)
Deferred Acquisition Costs (DAC)		2
All Other Adjustments Net		9
Total Adjustments in the First Restatement		(183)
Income Taxes, as Adjusted in the First Restatement	1,674	1,218
Initial Adjustments in the Second Restatement:		
Income Tax Accounting	99	5
All Other Adjustments Net	366	227
Total Initial Adjustments in the Second Restatement	465	232
Income Taxes, as Restated in the Initial Adjustments	2,139	1,450
Additional Adjustments in the Second Restatement:		
Income Tax Accounting	(22)	15
All Other Adjustments Net	(34)	(1)
Total Additional Adjustments in the Second Restatement	(56)	14
Income Taxes, as Restated in the Second Restatement	\$ 2,083	\$ 1,464

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

3. Segment Information

The following table summarizes the operations by major operating segment for the six months and quarter ended June 30, 2005 and 2004:

Operating Segments <i>(in millions) (unaudited)</i>	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Revenues^(a):				
General Insurance ^(b)	\$ 22,624	\$ 20,331	\$ 11,405	\$ 10,234
Life Insurance & Retirement Services ^(c)	23,292	21,280	11,517	10,795
Financial Services ^(d)	6,214	3,473	3,778	1,659
Asset Management ^(e)	2,596	2,254	1,219	1,204
Other	379	(27)	(16)	197
Consolidated	\$ 55,105	\$ 47,311	\$ 27,903	\$ 24,089
Operating income^{(a)(f)}:				
General Insurance	\$ 3,527	\$ 2,914	\$ 1,885	\$ 1,472
Life Insurance & Retirement Services	4,505	4,068	2,324	2,319
Financial Services	3,259	899	2,214	315
Asset Management	1,114	965	524	529
Other ^(g)	(55)	(355)	(246)	14
Consolidated	\$ 12,350	\$ 8,491	\$ 6,701	\$ 4,649

(a) Revenues and operating income reflect changes in market or estimated fair value associated with hedging activities that do not qualify for hedge accounting pursuant to FAS 133.

(b) Represents the sum of General Insurance net premiums earned, net investment income and realized capital gains (losses).

(c) Represents the sum of Life Insurance & Retirement Services GAAP premiums, net investment income and realized capital gains (losses).

(d) Represents interest, lease and finance charges.

(e) Represents management and advisory fees and net investment income with respect to guaranteed investment contracts (GICs).

(f) Represents income before income taxes, minority interest and cumulative effect of an accounting change.

(g) Represents other income (deductions) net and other realized capital gains (losses).

The following table summarizes AIG's General Insurance operations by major internal reporting unit for the six months and quarter ended June 30, 2005 and 2004:

General Insurance <i>(in millions) (unaudited)</i>	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Revenues:				
Domestic Brokerage Group	\$ 12,530	\$ 11,108	\$ 6,241	\$ 5,577
Transatlantic	1,930	1,944	948	971

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Personal Lines	2,380	2,197	1,209	1,109
Mortgage Guaranty	342	319	173	157
Foreign General	5,437	4,747	2,835	2,410
Reclassifications, Eliminations and Other	5	16	(1)	10

Total General Insurance	\$ 22,624	\$ 20,331	\$ 11,405	\$ 10,234
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Operating Income:				
Domestic Brokerage Group	\$ 1,518 ^{(a)(b)}	\$ 1,126	\$ 805 ^(b)	\$ 570
Transatlantic	213	231	99	114
Personal Lines	211	195	102	99
Mortgage Guaranty	213	212	109	116
Foreign General	1,367	1,134	771	563
Reclassifications, Eliminations and Other	5	16	(1)	10

Total General Insurance	\$ 3,527	\$ 2,914	\$ 1,885	\$ 1,472
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(a) Includes \$118 million of additional losses incurred resulting from increased labor and material costs related to the 2004 Florida hurricanes.

(b) Includes \$100 million accrual in the second quarter of 2005 to cover current estimate of the liability relating to policies of workers compensation insurance written between 1985 and 1996.

Table of Contents**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(continued)*

American International Group, Inc. and Subsidiaries

3. Segment Information *(continued)*

The following table summarizes AIG's Life Insurance & Retirement Services operations by major internal reporting unit for the six months and quarter ended June 30, 2005 and 2004:

Life Insurance & Retirement Services <i>(in millions) (unaudited)</i>	Six Months Ended June 30,		Three Months Ended June 30,	
	2005 (Restated)	2004 (Restated)	2005 (Restated)	2004 (Restated)
Revenues^(a):				
Foreign:				
AIA, AIRCO and Nan Shan ^(b)	\$ 7,924	\$ 7,526	\$ 3,858	\$ 3,751
ALICO, AIG Star Life and AIG Edison Life ^(c)	7,128	5,925	3,609	3,160
Philamlife and Other	257	229	127	112
Domestic:				
AGLA and AG Life ^(d)	4,502	4,431	2,114	2,309
VALIC, AIG Annuity and AIG SunAmerica ^(e)	3,481	3,169	1,809	1,463
Total Life Insurance & Retirement Services	\$ 23,292	\$ 21,280	\$ 11,517	\$ 10,795
Operating Income:				
Foreign:				
AIA, AIRCO and Nan Shan ^(b)	\$ 1,237	\$ 1,239	\$ 649	\$ 712
ALICO, AIG Star Life and AIG Edison Life ^(c)	1,394	1,073	798	793
Philamlife and Other	33	43	17	15
Domestic:				
AGLA and AG Life ^(d)	706	733	240	450
VALIC, AIG Annuity and AIG SunAmerica ^(e)	1,135	980	620	349
Total Life Insurance & Retirement Services	\$ 4,505			