ASSOCIATION REPORT ON EXAMINATION

OF THE

AMERICAN INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 1996

EXAMINER	STATE	ZONE
DONALD CARBONE	NEW YORK	NORTHEASTERN
JOSEPH M. PIRES	MISSISSIPPI	SOUTHEASTERN
ROSIE PAGHUNASAN	CALIFORNIA	WESTERN

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Subcommittee, NAIC
2301 McGee Street, Suite 800
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Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
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Honorable Charles Cohen
Director
Secretary-Treasurer, Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7256

Commissioners:

In accordance with your several instructions, an Association Examination has been made as of December 31, 1996 into the financial condition and affairs of the American International Insurance Company and the following report is respectfully submitted thereon.

REPORT ON EXAMINATION

OF THE

AMERICAN INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 1996

EXAMINER	DONALD CARBONE
DATE OF REPORT	AUGUST 18, 2000

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

Honorable Neil Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21104 dated March 28, 1997, I have made an examination as of December 31, 1996, into the condition and affairs of the American International Insurance Company, a New York corporation and respectfully submit the following report thereon.

Wherever the designations “Company” or “AIIC” appears in this report, they should be understood to indicate American International Insurance Company.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1991. This examination covered the five- year period from January 1, 1992 to December 31, 1996. Transactions subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 1996, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("N.A.I.C."):

History of the Company
Management and control
Corporate records
Fidelity bond and other insurance
Employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of the Company
Business in force
Loss experience
Reinsurance
Accounts and records

The Company's home office is located at 70 Pine Street, New York, NY 10270. On May 3, 1990, the Company requested permission to move its books and records outside of New York State pursuant to Section 325(b) of the New York Insurance Law. The Department approved the request for the Company to move its records outside New York State on June 12, 1990. Therefore, the examination was conducted at the administration office of the Company located at 505 Carr Road, Wilmington, Delaware 19809.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

A review was also made to ascertain what action was taken by the Company with regard to comments in the prior report on examination.

2. DESCRIPTION OF COMPANY

The Company was incorporated in New York on September 19, 1985 as The Belgian General Insurance Company (BGIC). It began business with a capital of $500,000 consisting of 1,000 shares of common stock with a par value of $500 per share.

Effective September 30, 1985, the Compagnie Belge D'Assurances Generales "Incendie, Accident Et Risques Divers" of Belgium, which conducted business in the United States via a United States Branch, entered into a Domestication Agreement whereby it transferred all the assets and liabilities of its United States Branch to BGIC, in return for all of the outstanding shares of common stock of BGIC. This Department approved this agreement as of that date.

On January 8, 1986, American International Group, Inc. (AIG) purchased the aforementioned 1,000 shares of capital stock from the Compagnie Belge D'Asssurances Generales "Incendie, Accident Et Risques Divers" of Belgium to become the new sole shareholder of BGIC.

On February 24, 1986, BGIC's authorized capital was increased to $2,500,000. This increase in authorized capital was composed of 5,000 shares of common stock with a par value of $500 per share and was approved by this Department on March 14, 1986.

On April 22, 1986, pursuant to the terms provided under the acquisition agreement with AIG, BGIC's name was changed to American International Insurance Company, the Company's present corporate title. The Department approved the change in name on May 14, 1986.

On April 1, 1987, AIG sold its ownership of the Company to its wholly owned domestic insurance subsidiaries as follows:

Shareholder	Percent owned
Commerce and Industry Insurance Company	50%
American Home Assurance Company	25
AIU Insurance Company	25
Total	100%

On March 24, 1992 AIIC amended its charter to increase its capital paid up to $5,000,000, consisting of 5,000 shares of common stock with a par value of $1,000 per share, all issued to AIG affiliates as stated above. However, it was noted that the Company reported the components of such paid-up capital in the General Interrogatories Section of its 1996, 1997 and 1998 annual statements incorrectly. The Company reported having paid-up capital of $5,000,000 consisting of 5,000,000 shares of common stock with a par value of $1 per share, instead of 5,000 shares of common stock a the par value of $1,000 per share. It is recommended the Company report the proper number of shares of its authorized and issued capital common stock and the proper par value per share of such stock in its future annual statements.

A. Management

Pursuant to the charter and by-laws of the Company, corporate powers shall be exercised by a board of directors consisting of not less than thirteen nor more than twenty-one members. The following were members of the board of directors as of December 31, 1996:

Name and Residence	Principal Occupation
Florence A. Davis Brooklyn, NY	Vice President and General Counsel, AIG, Inc.
Maurice R. Greenberg New York, NY	Chairman of the Board and Chief Executive Officer, AIG, Inc.
Edwin Alfred G. Manton New York, NY	Senior Adviser, AIG, Inc.
Edward E. Matthews Princeton, NJ	Director and Vice Chairman, AIG, Inc.
Win J. Neuger Princeton, NJ	Senior Vice President, AIG, Inc.
Howard I. Smith Woodbury , NJ	Senior Vice President and Comptroller, AIG, Inc.
Thomas R. Tizzio Middletown, NJ	President, AIG, Inc.
Ernest E. Stempel Pembrok, Bermuda	Senior Advisor, AIG, Inc.
Robert M. Sandler Bridgewater, NJ	Senior Vice President, AIG, Inc.
David J. Walsh Morristown, NJ	Senior Vice President, AIG, Inc.
Jacob E. Hansen Greenville, DE	President, AIG Marketing, Inc.

Robert J. O'Connell Fairfield, CT	President and Chief Executive Officer, American International Life Assurance Company of New York
Glenn A. Pfeil Wilmington, DE	Vice President, Treasurer and Controller, AIG, Marketing, Inc.

It was noted that the Company's board had only twelve members at year-end in 1992, 1993, and 1994. This was in violation of Section 1202(a)(2) of the New York Insurance Law and Section V of the Company's charter which states in part:

> "The corporate powers of this Company shall be exercised by a Board of Directors consisting of not less than thirteen (13) members nor more than twenty-one (21) members..."

A comment was made in the prior report on examination recommending that the Company maintain thirteen directors in accordance with its charter and Section 1202 of the New York Insurance Law. However, it was noted that the Company complied with its charter and Section 1202 of the New York Insurance Law in 1995 and 1996 and had adequate number of directors in its board in 1995 and 1996.

A review of the attendance records at the board of directors' meetings held during the period under examination revealed that all meetings were well attended. However, as noted below, Directors Maurice R. Greenberg, J. Ernest Hansen and Glenn A. Pfeil attended less than half of the regular meetings they were eligible to attend during the period under review.

Directors	1992	1993	1994	1995	1996	Total
Maurice R. Greenberg	1	0	1	1	1	4 of 12
J. Ernest Hansen	1	4	2	1	1	9 of 19
Glenn A. Pfeil	N/A	N/A	N/A	N/A	0	0 of 3

Members of the board have fiduciary responsibilities and must evince an on-going interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate policy decisions. Individuals who fail to attend at least one-half of the board's regular meetings, unless appropriately excused, do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The senior officers of the Company at December 31, 1996 were as follows:

Name	Title
Jacob E. Hansen	President
Elizabeth M. Tuck	Secretary
Glenn A. Pfeil	Vice President, Treasurer and Controller
Edward E. Matthews	Senior Vice President
John G. Colona	Vice President-Marketing
Esta L. Cain	Vice President, General Counsel
Gary L. Willoughby	Vice President-Claims
Donald W. Procopio	Vice President-Actuary
David Walsh	Senior Vice President

B. Territory and Plan of Operation

The Company is authorized to transact the kinds of business as specified in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety

Paragraph	Line of Business
17	Credit
19	Motor vehicle and aircraft
20	Marine
21	Marine protection and indemnity

The Company is also authorized to write workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113, including insurance, described in the Longshoremen's and Harbor Workers' Compensation Act and the kinds of insurance and reinsurance of every kind or description, except with respect to life insurance, title insurance and contracts for the payment of annuities, as specified in Section 4102(c) of the New York Insurance Law. The Company is authorized to transact within the State of New York the business of special risk insurance as defined in Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, American International Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

In addition to New York and the District of Columbia, the Company is authorized to transact business in all states except California, Kansas, Maine, New Jersey, North Carolina, Ohio, Oregon, Tennessee, Vermont, Virginia and Wyoming. Approximately 94% of the Company's direct writings in 1996 were concentrated in Arizona, Florida, Michigan, Mississippi, New York, Pennsylvania and Texas. The following schedule shows the direct premiums written (in thousands), by calendar year, during the period covered by this examination, in New York State and countrywide and the percentage which the New York State premiums bears to the countrywide premiums:

Direct Premiums Written ($000's omitted)

	1992	1993	1994	1995	1996
New York State	$56	$770	$2,789	$4,280	$5,133
Countrywide	$21,596	$38,842	$85,711	$70,586	$69,449
% of New York State to Countrywide	0.26%	1.98%	3.25%	6.06%	7.39%

The Company writes and assumes personal lines auto and homeowners' insurance, which is marketed by AIG Marketing, Inc. (AIGM), an affiliate. AIGM provides all administrative and underwriting services associated with this business; claims services are handled by AIG Claims Services, an affiliate.

C. Reinsurance

Assumed Reinsurance

The Company assumes 100% of the mass marketing business written by American Interanational South Insurance Company, New Hampshire Insurance Company, American Home Assurance Company, National Union Fire Insurance Company of Pittsburgh, Pennsylvania, Commerce and Industry Insurance Company, Birmingham Fire Insurance Company of Pennsylvania, The Insurance Company of the State of Pennsylvania and AIU Insurance Company. The Company assumes New York State Limited Assignment Distribution (LAD) assigned risk auto business from AIU Insurance Company, American Home Assurance Company and Eagle Insurance Company. The Company is also an approved (LAD) carrier in Delaware, Pennsylvania and Texas. In addition, the Company assumes 10% of the business written by 20th Century Insurance Company, a non-affiliate.

The Company participated in a reinsurance agreement with the AIG Hawaii Insurance Company (AIG Hawaii) whereby AIIC assumed 50% of AIG Hawaii's business. The agreement was amended in December 1990 to increase the Company's participation to 75%. It was amended again in January 1995 to reduce the Company participation to 50%. The agreement was subsequently terminated, effective December 31, 1996 and replaced by an inter-company pooling agreement.

The Schedule F data as reported in the Company's annual statements filed for the year 1992 through 1996 were found to accurately reflect its reinsurance transactions.

The examiner reviewed all assumed reinsurance contracts effected during the examination period. These contracts all contained the required standard clauses, including insolvency clauses, thus meeting the requirements of Section 1308 of the New York Insurance Law. In addition, the Department has approved all of the assumed reinsurance treaties with the affiliates.

Inter-Company Pooling Agreement

The Company participates in an Inter-Company Pooling Agreement which was effective December 31, 1996. The agreement provides that business written by the participants is pooled with the combined premiums, losses and expenses pro-rated on the basis of the stated percentages. As of December 31, 1996, the insurers included in this pooling agreement and their participation were as follows:

Company	Percentage of Participation
American International Insurance Company	61%
New Hampshire Indemnity Company, Inc.	23%
AIG Hawaii Insurance Company, Inc.	11%
American International Insurance Company of California Inc.	3%
Minnesota Insurance Company	2%
Total	100%

Upon reviewing the inter-company pooling agreement and pooling entries made in December 1996 and 1997, it was noted that the Company did not implement the inter-company pool in accordance with the inter-company pooling agreement approved by the Department on August 20, 1996. Certain accounts such as agents' balances were not pooled. The Company's incorrect accounting for this resulted in its surplus as regards policyholders being overstated by $3,658,926 as of December 31, 1996. This amount was deemed immaterial and no examination change was made to the financial statements contained herein. However, it is recommended that the Company implement the pool in accordance with the terms of the inter-company agreement and collect from the pool members the monies due to the Company plus an appropriate amount of interest.

Ceded Reinsurance

In 1991, AIIC entered into an agreement to reinsure Colonial Penn Insurance Company ("CPI"), a non-affiliated company, on certain LAD assigned risk automobile business. One-half of the business assumed by the Company was retroceded to Eagle Insurance Company, an affiliate.

In June 1995, the Company entered into a Foreign National Quota Share Treaty with AIU Insurance Company Japan ("AIU"), whereby AIU assumed 50% of policies incepting in 1995 and onwards, covering all personal automobile and property insurance accepted or renewed by AIIC covering Foreign Nationals under a scheme agreed between AIU Insurance Japan ("AIU") and AIIC.

In December 1996, the Company entered a quota share agreement with National Union Fire Insurance Company of Pittsburgh, PA ("National Union"), whereby National Union assumed 25% of the net liability under all exposures from the entire inter-company pool in January 1997.

In addition to the aforementioned reinsurance agreements, the Company reinsures certain risks with several unaffiliated companies. Such arrangements serve to limit the Company's maximum loss on catastrophes, large risks and unusually hazardous risks.

The examiner reviewed all ceded reinsurance contracts and noted that they all were in compliance with Section 1308 of the New York Insurance Law.

At December 31, 1996, the Company had the following ceded reinsurance programs in effect:

Treaty	Cessions
Quota Share 100% Authorized	50% quota share of LAD and CLAD business for various states
Quota Share 100% Authorized	50% quota share of personal auto business under Master Motorist Program
Quota Share 100% Authorized	25% of all exposures in force on 12/31/96 and written on 1/1/97 and subsequent from the entire inter-company pool
Quota Share 100% Authorized	50% quota share of personal auto and property on losses within the United States and possessions
Personal Umbrella 100% Authorized	90% of $1,000,000 each occurrence Above $1,000,000: 90% of the first $1,000,000 each occurrence and 100% of the difference between the policy limit and $1,000,000 each occurrence
Aggregate Loss Ratio 100% Unauthorized	100% excess loss of aggregate loss ratio in excess of 92.7%, up to a further 10% of loss ratio.

Aggregate Excess 100% Authorized	100% liability for the ultimate net loss paid and outstanding subsequent to 12/31/89 Apply only to losses with accident date of 1989 and prior
Aggregate Excess 100% Authorized	100% liability for the ultimate net loss paid and outstanding subsequent to 12/31/88 Apply only to losses with accident date of 1988 and prior
Excess Property Catastrophe First Layer 48% Authorized 52% Unauthorized	95% of $5,000,000 excess of $5,000,000 of any loss occurrence
Excess Property Catastrophe Second Layer 53% Authorized 47% Unauthorized	95% of $10,000,000 excess of $10,000,000 of any loss occurrence
Excess Property Catastrophe Third Layer 41% Authorized 59% Unauthorized	95% of $15,000,000 excess of $20,000,000 of any occurrence

D. Holding Company System

The capital stock of American International Insurance Company is owned by Commerce and Industry Insurance Company (50%), American Home Assurance Company (25%) and AIU Insurance Company (25%), and is ultimately controlled by AIG, Inc., a Delaware holding company organized in 1967.

The Company, in turn, owns the common stocks of the following companies, which are part of the AIG holding company system:

Minnesota Insurance Company	100.00%
American International Insurance Company of California	100.00%

The Company acquired ownership of the two insurance companies in 1994. Upon examination, it was noted that AIIC overstated the market values of the common stocks of the two insurance companies by $1,590,722. Section 1414(c)(2) of the New York Insurance Law states in pertinent part:

> " … shares of insurance company not so registered shall be valued at the lesser of its market value or book value as shown by its last annual statement…"

It is recommended that the Company report the values of its insurance subsidiaries in accordance with Section 1414(c)(2) of the New York Insurance Law. The amount was deemed immaterial to the balance sheet and therefore no adjustment was necessary.

As of December 31, 1996, the Company had the following agreements with its affiliates in place:

<u>Management agreement with "AIGM"</u>

Under this agreement, AIGM provides all administrative and underwriting services, for the Company's voluntary business, except claims.

<u>Claim Service Agreement with "AIG Claims Services"</u>

Under this agreement, AIG Claims Services handled all claims on voluntary business.

<u>Management Agreement with "The Robert Plan"</u>

Under this agreement, The Robert Plan provides all administrative and underwriting services, for the Company's assigned risk business, except claims.

Claim Service Agreement with "Material Damage Adjustment Corp."

Under this agreement, Material Damage Adjustment Corp. processed all claims on assigned risk business.

Tax Allocation Agreement

A tax payment allocation agreement with AIG provides for equitable treatment under the consolidated tax return filed by the parent.

Investment Agreement

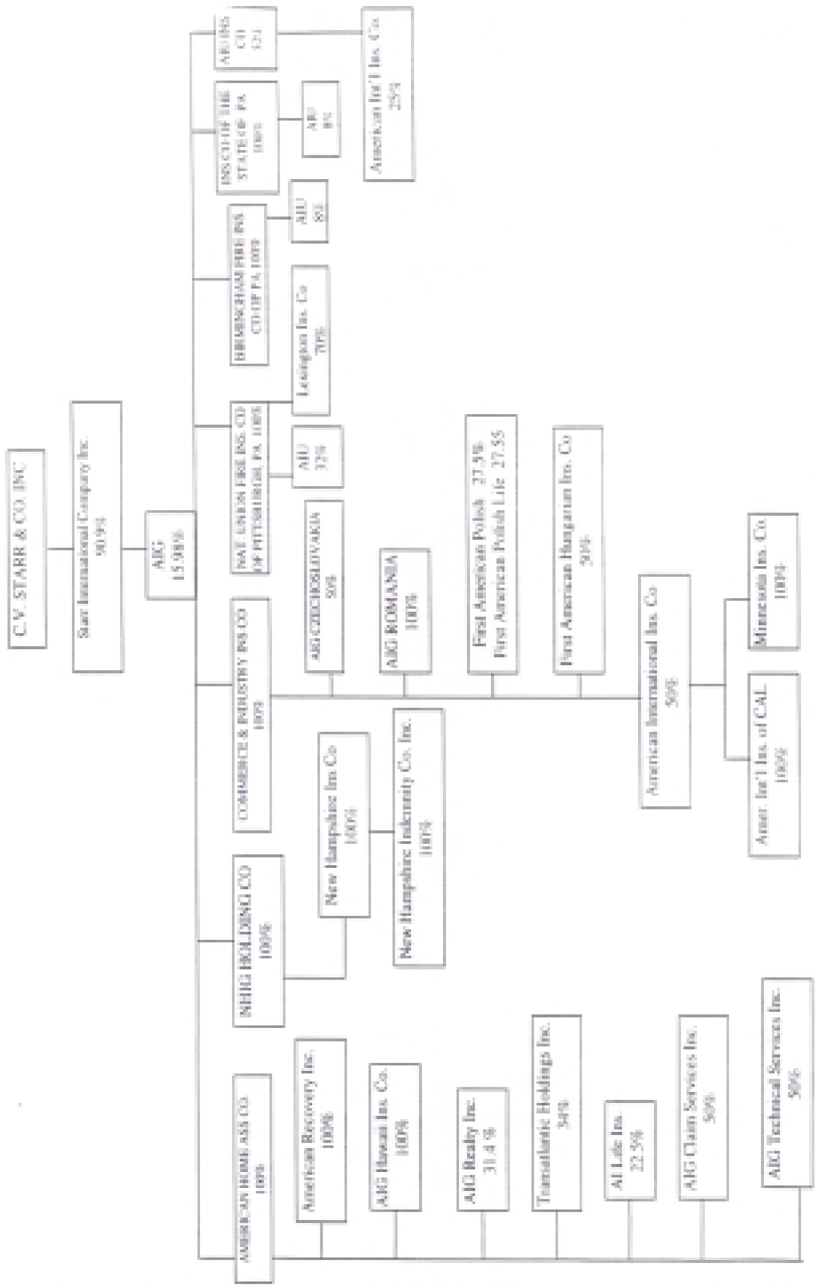
Under the terms of this agreement, AIIC's investments are managed by AIG Global Investors, Inc. (AIG Global), an affiliate.

Revolving Credit Agreement

During 1994, AIIC entered into a revolving credit agreement with AIGM. Under this agreement, borrowings must be less than 5% of admitted assets as of December 31, 1994. Interest charged on the outstanding principal balance is 6% and payable quarterly.

The Department approved all of the above agreements. A review was made of the Company's transactions with companies within the holding company system and compliance with the requirements of Article 15 of the New York Insurance Law. No exceptions were noted.

The following partial organizational chart shows the Company's position in the holding company system:



C.V. STARR & CO. INC
Starr International Company Inc. 90.9%
AIG 15.98%
AMERICAN HOME ASS CO. 100%
American Recovery Inc. 100%
AIG Hawaii Ins. Co. 100%
AIG Realty Inc. 31.4 %
Transatlantic Holdings Inc. 34%
AI Life Ins. 22.5%
AIG Claim Services Inc. 50%
AIG Technical Services Inc. 50%
NHIG HOLDING CO 100%
New Hampshire Ins Co 100%
New Hampshire Indemnity Co. Inc. 100%
COMMERCE & INDUSTRY INS CO 100%
AIG CZECHOSLOVAKIA 50%
AIG ROMANIA 100%
First American Polish 27.5%
First American Polish Life 27.55
First American Hungarian Ins. Co 50%
American International Ins. Co 50%
Amer. Int'l Ins. of CAL 100%
Minnesota Ins. Co. 100%
NAT. UNION FIRE INS. CO OF PITTSBURGH, PA. 100%
AIU 32%
Lexington Ins. Co 70%
BIRMINGHAM FIRE INS CO OF PA 100%
AIU 8%
INS CO OF THE STATE OF PA 100%
AIU 8%
AIU INS CO
American Int'l Ins. Co. 25%

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1996, based upon the results of this examination:

Net premiums written in 1996 to Surplus as regards policyholders	2.85 to 1
Liabilities to Liquid assets	112%*
Premiums in course of collection to Surplus as regards policyholders	258%*

It was noted that two of the three ratios fall outside of the benchmark ranges as set forth in the Insurance Regulatory Information System of the N.A.I.C. It was due to the implementation of the inter-company pool on December 31, 1996.

The underwriting ratios presented below are on an earned-incurred basis and encompass the five years period covered by this examination:

	Amounts	Ratios
Losses incurred	$1,143,179,510	74.55%
Loss adjustment expenses incurred	213,002,249	13.89
Other underwriting expenses incurred	352,415,966	22.98
Aggregate write-ins - LAD fees	(139,852,562)	(9.12)
Net underwriting loss	(35,208,077)	(2.30)
Premiums earned	$1,533,537,086	100.00%

F. Abandoned Property Law

Section 1316 of the captioned law required certain unclaimed insurance proceeds to be reported to the State of New York by April 1 of each year. A review of the filing for the period under examination indicated that the Company did not make any abandoned property filings with the State of New York in accordance with the captioned law. Therefore, it is recommended that the Company comply with Section 1316 of the Abandoned Property Law and file with the State of New York any checks or drafts that have been outstanding for more than three years.

G. Section 310 of New York Insurance Law

During the course of the examination, examiners experienced considerable delays in obtaining certain examination material. Many items were given to the examiners several months after initial requests and follow up memoranda. On August 31, 1998, September 30, 1998 and again on February 1, 1999, management was reminded of its obligation to comply with Section 310 on the Insurance Law, which states, in part as follows:

> "Any examiner authorized by the superintendent shall be given convenient access at all reasonable hours to the books, records, files, securities and other documents of such insurer or other person, including those of any affiliated or subsidiary companies, thereof, which are relevant to the examination…"
> "The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so."

Although management attributed the delay to personnel turnover, it is recommended that the Company comply with the provisions of Section 310 of the New York Insurance Law.

H. Valuation of Securities

It was noted that the Company has not submitted all securities for valuation in accordance with the procedures set forth in the Valuation of Securities manual compiled by the NAIC Valuation of Securities (EX4) Task Force. It is recommended that the Company submit all the securities for valuation in accordance with the procedures set forth in the NAIC Valuation of Securities Manual.

I. Actuarial Data Reconciliation

A major aspect of the loss and loss adjustment reserve review was an attempt to reconcile the Company's statistical data, that was provided for examination analysis, to the Company's annual statement. The reconciliation was difficult because of the many varying business relationships between the Company and the affiliated and non-affiliated companies through which it writes business. This difficulty was compounded by the fact the inter-company pooling agreement commenced on December 31, 1996, resulting in a series of adjustments to the statements of the Company and other companies in the inter-company pool.

Although the Company's actuarial reconciliation was accurate, it is recommended that the Company continue in its effort to streamline its process to make their reconciliation clear.

I3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders determined by this examination as of December 31, 1996, and as reported by the Company:

Assets	Ledger Assets	Non-Ledger Assets	Not-Admitted Assets	Net-Admitted Assets
Bonds	$519,672,406	$	$	$519,672,406
Stocks: Preferred	2,500,000			2,500,000
Common	11,242,360	989,873		12,232,233
Cash on hand and on deposit	0			0
Short-term investments	821,490			821,490
Other invested assets	44,255,561	(81,079)		44,174,482
Premiums, agents' balances in course of collection	48,744,751			48,744,751
Premiums, agents' balances and installments booked but deferred and not yet due	22,806,615			22,806,615
Reinsurance recoverable on loss payments	(187,302,140)			(187,302,140)
EDP equipment	127,833		127,833	0
Interest, dividends and real estate income due and accrued		9,062,455		9,062,455
Receivable from parent, subsidiaries and affiliates	5,036,643			5,036,643
Other assets non-admitted	93,324		93,324	0
Losses paid reserve but not processed	8,678,122			8,678,122
Total assets	$476,676,965	$9,971,249	$221,157	$486,427,057

Liabilities	
Losses	$294,873,657
Reinsurance payable on paid loss and loss adjustment expenses	(107,329,002)
Loss adjustment expenses	33,758,114
Other expenses	811,937
Taxes, licenses and fees	1,910,402
Unearned premiums	104,765,202
Drafts outstanding	6,573,431
Payable to affiliates	56,478
Reserve for outstanding checks	1,041,413
Total liabilities	$336,461,632
Policyholders' Surplus	
Capital paid up	$ 5,000,000
Gross paid in and contributed surplus	89,550,000
Unassigned funds	55,415,425
Surplus as regards policyholders	$149,965,425
Total liabilities and surplus	$486,427,057

NOTE: The Internal Revenue Service has completed its audits of AIG, Inc. and its subsidiaries' consolidated income tax returns through tax year 1986. The IRS audits for period 1987-1990 are currently at the appellate level of the IRS. The IRS audits for period 1991-1993 are currently at the field audit level. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits, are reflected in the financial statements included in this report. Audit covering tax year 1994 and beyond has yet to commence. Except for any impact which might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $88,921,635, during the five-year period, January 1, 1992 through December 31, 1996, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$1,533,537,086
Deductions:		
Losses incurred	$1,143,179,510	
Loss adjustment expenses incurred	213,002,249	
Other underwriting expenses incurred	352,415,966	
Aggregate write-ins LAD fees	(139,852,562)	
Total underwriting deductions		1,568,745,163
Net underwriting loss		$(35,208,077)
Investment Income		
Net investment income earned	$116,892,382	
Net realized capital gains	4,053,314	
Net investment gain		$120,945,696
Net income before federal and foreign income taxes		$85,737,619
Federal and foreign income taxes incurred		(5,837,898)
Net income		$79,899,721

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, per report on examination, as of December 31, 1991			$61,043,790
Net income	$79,899,721	$	
Net unrealized capital gains	908,795		
Change in not admitted assets		221,157	
Change in liability for reinsurance	27,276		
Change in liability	8,307,000		
Capital changes: paid in	2,500,000		
Surplus adjustment: stock dividend		2,500,000	
Total gains and losses	$91,642,792	$2,721,157	
Net increase in surplus as regards policyholders			88,921,635
Surplus as regards policyholders, per report on examination, as of December 31, 1996			$149,965,425

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for the losses and loss adjustment expenses, in the amounts of $294,873,657 and $33,758,114, respectively, are the same amounts reported by the company in its 1996 filed annual statement.

The examination reserves were calculated in accordance with generally accepted actuarial principles and practices and were based on statistical information contained in the Company's sworn to and filed annual statements and their internal statistics. The techniques employed projections of ultimate costs by accident year and subtracted, therefrom, losses paid through the examination date. The results indicated that the reserves as established by the Company were adequate.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation.

The general review was directed at practices of the Company in the following major areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Treatment of policyholders and claimants

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The following recommendations cited in the prior report on examination as of December 31, 1991, which have been acted upon are summarized below (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	It is recommended that the Company maintain thirteen directors in accordance with its charter and Section 1202 of the New York Insurance Law. The Company did not comply with this recommendation from 1992 to 1994. The Company's board had only twelve members at year-end in 1992, 1993, and 1994. However, the Company complied with this recommendation in 1995 and 1996	4
B.	It is recommended that the Company allocate its expenses in accordance with Department Regulation 30. The Company has complied with this recommendation.	11
C.	The Company reported a negative balance for the asset cash on hand and on deposit. It is recommended that the Company report a liability for any overdrafts of its bank accounts. The Company has complied with this recommendation.	11

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Description of the Company	5
	It is recommended the Company report the proper number of shares of its authorized and issued capital common stock and the proper par value per share of such stock in its future annual statements.	
B.	Board of Directors Meeting	7
	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced	
C.	Inter-Company Pool	11
	It is recommended that the Company implement the pool in accordance with the terms of the inter-company agreement and collect from the pool members the monies due to the Company plus an appropriate amount of interest.	
D.	Holding Company System	
	It is recommended that the Company report the value of its insurance subsidiaries in accordance with Section 1414(c)(2) of the New York Insurance Law.	14
E..	Abandoned Property Law	18
	It is recommended that the Company comply with Section 1316 of the Abandoned Property Law and file, with the State of New York, any checks or drafts that have been outstanding for three or more years.	
F.	Section 310 of the New York Insurance Law	18
	Although management attributed the delay to personnel turnover, it is recommended that the Company comply with Section 310(a)(2), (3) and (4) of the New York Insurance Law and cooperate fully with the New York Insurance Examiners in all future examinations and correspondences.	

ITEM		PAGE NO.
G.	Valuation of Securities	19
.	It is recommended that the Company submit all the securities for valuation in accordance with the procedures set forth in the NAIC Valuation of Securities Manual.	
H.	Actuarial Data Reconciliation	19
	Although the Company's actuarial reconciliation was accurate, it is recommended that the Company continue its effort to streamline its process to make their reconciliation clear.	

Respectfully submitted,

___________/S/______________________

Donald Carbone, CFE, CIE

Principal Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

DONALD CARBONE, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____________/S/____________________

Donald Carbone

Respectfully submitted,

____________/S/_____________________

Rosie Paghunasan, CFE

Senior Insurance Examiner

STATE OF CALIFORNIA)
)SS.
)
COUNTY OF LOS ANGELES)

ROSIE PAGHUNASAN, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

_______________/S/__________________

Rosie Paghunasan

Respectfully submitted,

__________/S/_______________________

Joseph Pires, CFE, CIE

Mississippi Insurance Examiner

STATE OF MISSISSIPPI)
)SS.
)
COUNTY OF HINDS)

JOE PIRES, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

______________/S/__________________

Joseph Pires, CFE, CIE

Appointment No. 21104

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO *, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Donald Carboue

as proper person to examine into the affairs of the

AMERICAN INTERNATIONAL INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 28th *day of* March *1997*

GREGORY V. SERIO
Acting Superintendent of Insurance

(by) Deputy Superintendent